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Probitas Syndicate 1492

Annual Report & Accounts 2016

CONTENTS

DIRECTORS AND ADMINISTRATION

Managing Agent

Managing agent

Capita Managing Agency Limited (CMA) is the managing agent of Probitas Syndicate 1492. CMA is a wholly owned subsidiary (indirectly held) of Capita plc and operates within the Group's Private Sector Partnerships.

Directors

C M Grint - Chief Executive Officer
D E Hope - Non-executive Director
J B King - Chief Operations Officer
P Koslover - Chief Risk Officer
T Marsh - Compliance Director
M Petzold - Director of Underwriting
W Scott - Finance Director
E S Stobart - Chairman, Non-executive
S M Wilton - Non-executive Director

Company secretary

Capita Group Secretary Limited

Managing agent's registered office

The Registry
34 Beckenham Road
Beckenham
Kent
United Kingdom
BR3 4TU

Managing agent's registered number

3935227

DIRECTORS AND ADMINISTRATION (continued)

Syndicate

Active underwriter

A Bathia

Bankers

Barclays Bank plc - London
Citibank NA - London and New York
RBC - Toronto

Statutory auditor

Deloitte LLP

Statement of actuarial opinion signing actuary

Deloitte LLP

REPORT OF THE ACTIVE UNDERWRITER

Overview

The foundations of the syndicate have now been laid

- The senior management team is complete;
- Casualty underwriting team of 12 under Neila Buurman;
- Property and Construction underwriting team of 10 under Jon Foley;
- Marketing and distribution team of 6 under Nick Bacon
- An analytics team of 4 with Chief Pricing Officer Antony Dodson;
- Launch of online TradeWinds platform;
- Establishment of 'in house' Lloyd's broker through Capita

Whilst the broad strategy of the Syndicate remains as envisaged at the outset, we continue to adapt and evolve the execution in line with market challenges.

Core Strategy

The syndicate's core strategy is underpinned by the following principles:

- Delivering new and accretive business to the Lloyd's market
- High level of focus on emerging and high growth markets built on strong Latin American foundations and supplemented by Middle East, Central and Eastern Europe and South East Asia
- Markets where Lloyd's is currently underweight being Western Europe and UK Regional Business
- Emphasis on SME and mid-market business being non-cumulative and non-correlated to the Lloyd's market
- Diverse distribution strategy going to the origination of the business
- Embedding technology and analytics at the centre and front of the business
- Developing strong, sustainable and long term partnerships with a select number of distribution partners

Background

The syndicate started trading in October 2015, over 3 months later than originally anticipated. Our priority, therefore, over the past 17 months has been to build strong foundations starting with a high profile executive team with a proven track record and a high quality underwriting, distribution and analytics team, together with a robust governance and compliance framework from our Managing Agent, Capita.

REPORT OF THE ACTIVE UNDERWRITER (continued)

Background (continued)

We will continue to build on these strong foundations to further enhance and develop our technology platform and capability, which we recognise as one of our key strategic imperatives and a differentiator in the market.

2016 Update

In light of the market conditions and delayed start, the syndicate prudently decided to resubmit the SBF with a revised GWP of £89m, down from the original £105m. I expect this year of account to benefit further from additional gross written premium income in 2017 which has yet to be generated and attaches to facilities that incepted prior to 31 December 2016.

2017 High Level Syndicate Business Plan

GWP

Having recruited a full complement of underwriters and put into action some of our key strategic initiatives, the Syndicate is proposing to write a GWP of £111m for 2017 which is in line with our original 2016 SBF of £105m (US$130m). This remains a challenging plan. The syndicate is, however, determined to meet its plan but equally resolved not to chase top line but rather seek out profitable business opportunities and deliver its planned management loss ratios, which are materially better than the approved SBF loss ratios.

Class Split

This remains broadly as envisaged taking into account the much slower build-up of the Financial Lines portfolio in 2016 (forecast at 8% of SBF) but now fully embedded for 2017 (18% of SBF). The overall Property/Casualty split of 40%/60% is, therefore, broadly in line with our original plan.

REPORT OF THE ACTIVE UNDERWRITER (continued)

2017 High Level Syndicate Business Plan (continued)

1. Geographic Split

Region	GWP Amounts (000s)	Percentage Split
Latam (inc Carib)	31,460	28%
UK	26,743	24%
W Europe (ex UK)	15,507	14%
APAC	12,116	11%
N America (Canada)	11,067	10%
MENA	10,413	9%
CEE	4,270	4%
Total	**111,576**	**100%**

2. Impact of Brexit

The syndicate will continue to expand its book of business sourced from Western Europe by making full use of our developing direct underwriter and cover-holder contacts. Given the close business connections and relationships which we are developing we do not consider that Brexit will have a significant adverse impact upon our ability to achieve our goals.

3. Latin America (LatAm) coverage

The syndicate will continue to focus on developing its LatAm footprint by setting up a regional underwriting presence co-ordinated through a Mexican-based hub. The intention of the syndicate is to be the first underwriting centre in Mexico using the highly innovative Lloyd's platform.

To further under-line our commitment and credentials as a lead and 'go to' market for Latin America we have recruited Gabriel Anguiano, who has considerable experience and knowledge in the region, to drive business development and long term strategy for the region. Gabriel joined us from Lloyd's where his role was to represent the market, specifically in Mexico, and generally for Latin America.

4. Reinsurance

The syndicate gross exposure is protected by an 'effective and efficient' treaty reinsurance program to provide significant levels of both vertical and sideways coverage with high quality security (minimum A-rated S&P or Best).

REPORT OF THE ACTIVE UNDERWRITER (continued)

2017 High Level Syndicate Business Plan (continued)

5. Capital Support

The syndicate continues to receive strong support from a high quality and diverse investor base enabling a syndicate stamp capacity for the 2017 year of account of £90.5m to be achieved.

I should like to take this opportunity of thanking all participating capital both past and current.

Istmo Re have historically supported syndicate 1492 and will be standing down and it is our intention to substitute their support in readiness for the 2017 mid- year coming into line.

6. Ogden Rate Impact

The syndicate underwrites certain UK liability risks and notably excluding UK motor liability. For reporting purposes as at 31 December 2016 I can advise that the reduction of the Ogden rate has no impact on 1492's reserves. It is however possible that there might be an impact if there were ever to be a claim arising from this book of business and which was potentially subject to a periodic payment order (PPO).

Summary

The syndicate is fully committed and resolved to build its franchise and business based on the unique business model.

The syndicate seeks to go to the origination of business to deliver new and accretive business to Lloyd's and uniquely combine the art of underwriting and the science of analytics, combined with the reach of its distribution and technology led delivery mechanisms.

Ash Bathia
Active Underwriter
Syndicate 1492
21 March 2017

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors of Capita Managing Agency Limited (CMA), the managing agent, present their report for Syndicate 1492 ('the Syndicate') for the year ended 31 December 2016.

Basis of Preparation

This Annual Report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and applicable United Kingdom Accounting Standards, including Financial Reporting Standard 102: The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland ('FRS102') and Financial Reporting Standard 103: Insurance Contracts ('FRS103').

The Syndicate

On 30 September 2015, Lloyd's confirmed its approval for Probitas Syndicate 1492 to commence underwriting effective 1 October 2015. Probitas Syndicate 1492 has been formed as an exclusively Lloyd's based business, writing Property and Casualty insurance and reinsurance business, including underwriting business from the world's emerging markets. The Syndicate is backed by a broad mix of corporate member capital.

Results

The result for Syndicate 1492 for the year ended 31 December 2016 is a loss of £12,376,000 (2015: £2,147,000 loss), of which £2,342,000 and £10,034,000 is attributable to the 2015 and 2016 pure underwriting years of account respectively.

The Syndicate's key financial performance indicators during the period were as follows:

	2016 £000	2015 £000
Gross premiums written	42,815	3,018
Gross premiums earned	20,949	233
Net premiums earned	16,125	(233)
Net claims incurred	(13,331)	(132)
(Loss) for the financial year	(12,376)	(2,147)
Net Incurred Loss Ratio	82.67%	(56.52)%
SBF Net Loss Ratio	83.22%	(56.43)%

Syndicate business forecast (SBF) loss ratio is based on 12 month forecast

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Principal Activities

The principal activity of Syndicate 1492 is the transaction of general insurance and reinsurance business. The Syndicate underwrites a range of classes of business concentrating initially on Property and Casualty business written on both a direct and reinsurance basis.

	Gross Written Premium		Gross Written Premium	
	2016 %	**2016 £000**	2015 %	2015 £000
Property	**56.0**	**23,955**	89.7	2,706
Construction	**4.1**	**1,759**	-	-
Property D & F	**60.1**	**25,714**	89.7	2,706
Financial Lines	**17.6**	**7,548**	-	-
Casualty UK	**8.3**	**3,560**	-	-
Casualty Rest of World	**14.0**	**5,993**	10.3	312
Casualty	**39.9**	**17,101**	10.3	312
Total	**100.0**	**42,815**	100.0	3,018

Business was not split at this level of granularity in 2015.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Review of the Business (continued)

An indication of the geographical analysis of gross written premium by (i) territory of original insured, for Direct & Facultative (D&F) business and (ii) territory of original cedant for treaty business is shown below:

	Gross Written Premium		Gross Written Premium	
	2016 %	**2016 £000**	2015 %	2015 £000
UK	**21.7**	**9,309**	2.0	73
Latin America	**21.4**	**9,174**	66.0	1,994
Europe excluding UK	**18.2**	**7,796**	7.0	199
Worldwide	**8.7**	**3,726**	-	-
Oceania	**7.9**	**3,391**	1.1	14
Caribbean	**7.5**	**3,205**	1.9	61
Middle East	**5.4**	**2,321**	16.0	469
Asia	**4.2**	**1,809**	7.0	200
North America	**3.7**	**1,576**	**-**	**-**
Africa	**1.2**	**507**	-	8
Total	**100.0**	**42,815**	100.0	3,018

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REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Review of the Business (continued)

Probitas Syndicate 1492 declared a loss for the year amounting to £12,376,000 (2015: £2,147,000 loss). The main elements in arriving at this result included:

	2016	2015
	£'000	£'000
Earned premiums, net of reinsurance	**16,125**	(233)
Claims incurred net of reinsurance	**(13,331)**	(132)
Net technical result	**2,794**	(365)
Net acquisition costs	**(3,664)**	(88)
Administration expenses	**(9,700)**	(1,455)
Syndicate operating expenses	**(13,364)**	(1,543)
Investment return	**15**	-
Foreign exchange loss	**(228)**	(7)
Result before personal expenses	**(10,783)**	(1,915)
Personal expenses	**(1,593)**	(232)
Total	**(12,376)**	(2,147)

The reserving methodology regarding the earned reserves has been as follows: with the exception of the property class of business the syndicate business forecast planned loss ratios have been applied.

We consider this approach to be appropriate since we consider that as at 31 December 2016 there is insufficient evidence to adopt a more experience based methodology. However, regarding the property class of business, which is short tailed in nature, we considered it appropriate to recognise some of the positive experience to date, and consequently we have used a method based on claim reporting lags to derive the reserve estimate on this class.

The level of actual acquisition costs relating to gross written premium and charged in the reporting period were mainly as expected when compared to that envisaged within the Syndicate business plans.

The net cash outflow during the reporting period was £6,614,000 from all operations. Cash and cash equivalents include £14,701,000 of overdrafts as they form an integral part of the Syndicate's cash management.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Review of the Business (continued)

As the Syndicate develops, any surplus funds are held in interest bearing current bank accounts or short term deposits, providing the Syndicate with ready access to working capital. The Syndicate does not hold any off balance sheet arrangements.

During the reporting period, the Syndicate appointed a team of dedicated class underwriters supplemented by additional distribution capabilities initially in Latin America, and subsequently in Eastern Europe, the Middle East and Asia. These additional capabilities build upon Lloyd's existing global presence.

It is planned that the developing underwriting portfolio will continue to be focused on Property and Casualty classes of business. Set out below is an indication as to how the portfolio is planned to develop for 2017:

	2017 %
Indicative split by Class of Business:	
Property D&F	42.2
Casualty	36.0
Financial Lines	18.2
Contractor All Risks	4.6
Total by Class of Business	**100.0**
Indicative split by Risk location:	
UK	24.0
Latin America	21.9
Europe excluding UK	17.7
North America	9.9
Middle East	7.6
Caribbean	6.3
Oceania	5.5
Asia	5.4
Africa	1.7
Total by Risk location	**100.0**

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Review of the Business (continued)

Principal Risks and Uncertainties

The major risks and uncertainties that the Syndicate faces are presented below.

Insurance Risk:

Insurance risk can be viewed as comprising three main elements: underwriting, claims and reserving. Each of these can be defined as:

Underwriting Risk:

An insurance risk includes the risk that an insurance policy might be written for insufficient premium and/or provide inappropriate cover.

The Syndicate's underwriting models, aggregation tools and policy wordings do not of themselves prevent unplanned concentrations of risk, either in geographical regions or types of policy. Consequently various risk management and loss mitigation techniques have been developed to manage and reduce this risk.

The Syndicate competes against major international groups and there will be occasions when some of these groups may choose to underwrite for cash flow or market share purposes and at prices that sometimes fall short of the Syndicate's minimum acceptable technical price. In common with all insurers, the Syndicate is exposed to this potential price volatility. Any extended periods of low premium rating levels and/or high levels of competition in the insurance markets are likely to have a negative impact on the Syndicate's ability to write business profitably and consequently its financial performance. The Syndicate monitors pricing levels and is committed to rejecting any business that is unlikely to generate a positive underwriting result.

Claims Risk:

Claims risk includes the risk that the frequency and/or severity of insured events might be higher than expected.

Reserving Risk:

Reserving risk includes the risk that the estimates of claims might subsequently prove to be insufficient. Establishing an appropriate level of loss reserves is an inherently uncertain process. It is therefore possible that the Syndicate's reserves, at any given time, might prove to be inadequate.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Principal Risks and Uncertainties (continued)

Operational Risk:

This is the risk that errors caused by people, processes and/or systems might lead to financial losses to the Syndicate. CMA manages this risk by reference to and use of a risk register, including a regular review process with those executives who have authority and responsibility for identifying, assessing and controlling operational risks effectively.

CMA has developed and implemented a risk reporting and risk governance system to ensure that effective risk management of operational risk is embedded. Management receives regular operational risk updates and the Audit & Risk Committee reviews the operational risk dash-board at least on a quarterly basis.

CMA has entered into a number of outsourcing arrangements, the performance of which are overseen by the Outsource Committee.

It is critical for the Syndicate that the key resources required to support its underwriting and other essential business activities continue to be available. A number of contingency plans are in place to mitigate against any loss of key resources from disrupting the ongoing operations of the Syndicate.

Market Risk (including interest rate & currency):

This is the risk of financial loss which arises from any fluctuations in market factors, including:

1. The value of investment holdings themselves
2. Movements in interest rates
3. Movements in foreign exchange rates

As the Syndicate develops, its exposure is likely to increase in respect of each of the above. CMA, through its Investment Committee, will seek to mitigate any such exposure and therefore reduce any associated risk by reviewing, as and when appropriate, investment performance, and seeking to reduce as far as is practicable any currency assets/liabilities mismatches which might have arisen.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Principal Risks and Uncertainties (continued)

Credit Risk:

This is the risk of financial loss if another party fails to honour its financial obligations, including failing to meet them in a timely manner. Credit risk can arise from the failure to receive inwards premium and the failure to collect outwards reinsurance claims recoveries. All Syndicate premium receivable balances are reported on an ongoing basis to enable the Syndicate Monitoring Committee to assess their recoverability.

The Syndicate purchases reinsurance protection to contain exposure from single claims and the aggregation of claims from catastrophic events. If a reinsurer fails to pay a claim for any reason, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is therefore regularly reviewed throughout the year. The Syndicate currently has no actual or direct experience of bad debt losses arising from its reinsurance arrangements. The Syndicate makes active use of CMA's "Broker Vetting & Reinsurance Security Group" (BVRSG).

Other areas of exposure to credit risk include:

1. Amounts due from insurance intermediaries; and
2. Counterparty risk with respect to investments and other deposits.

CMA seeks to actively manage and reduce the Syndicate's exposure to this risk by introducing limits on its exposure to either a single counterparty, or groups of counterparties, and to geographical and industry segments wherever practicable or considered appropriate. Such limits will be subject to an annual or more frequent review as appropriate. It is considered that the current levels of concentration of credit risk are acceptable given the Syndicate's short period of operation. This area of risk will continue to be monitored closely.

Liquidity Risk:

Liquidity risk arises where cash may not be available to enable the Syndicate to pay its obligations as they fall due and at a reasonable cost. The Syndicate is exposed to daily cash demands on its available cash resources, including the settlement of claims, the payment of reinsurance premiums and also various operating and Names' personal expenses. The current approach is to hold cash at either no or short notice thereby minimizing any risk of significant capital loss. These funds are monitored by management on a regular basis. The directors do not consider that there is a significant risk of a material loss arising from liquidity risk.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Principal Risks and Uncertainties (continued)

Regulatory and Compliance Risk:
This is the risk of there being a financial loss owing to a breach of regulatory requirements and/or a failure to respond to a regulatory change. Management receives frequent regulatory and compliance risk updates and the Audit & Risk Committee reviews and monitors these risks on a quarterly basis.

The Syndicate is required to comply with the requirements of the Financial Conduct Authority (FCA), Prudential Regulation Authority (PRA) and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business.

Future Developments

Probitas Syndicate 1492 has been managed by CMA since its inception under what is known as a 'turnkey arrangement'. Consistent with the ambitions of all connected parties, it is planned, and subject to final agreement with Lloyd's, that the management of Syndicate 1492 will transfer from CMA to Probitas' Lloyd's managing agency at a future date.

Syndicate 1492 is supported by a diverse underwriting capital base. CMA is liaising closely with Probitas Corporate Capital Limited *(formerly Istmo Re Corporate Capital Limited)* and Probitas 1492 Services Limited while they seek to substitute Istmo Re's participation on the syndicate. CMA has every expectation that syndicate 1492 will continue underwriting into the 2018 year of account.

Rating Agencies

Syndicate 1492 does not have its own security rating, however it does benefit from the Lloyd's global A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard and Poor's and AA- (Very Strong) from Fitch. Ratings were taken at December 2016.

Working Capital

CMA monitors closely the Syndicate's actual cash flow against forecast and uses this data to assist in any discussions held with the Syndicate's sterling bankers concerning working capital requirements. CMA will provide advance notice to all relevant parties if ever it might be necessary to make a cash call on members in order to improve the Syndicate's working capital position.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Directors

The directors set out in the table below have held office for the whole period from 1 January 2016 to the date of this report unless stated otherwise.

I J Bremner *(resigned 31 May 2016)*
C M Grint *(appointed 12 August 2016)*
D E Hope
J B King
P Koslover *(appointed 10 August 2016)*
T Marsh
M Petzold
W Scott
E S Stobart
S M Wilton

The CMA Board appointed Colin Grint as interim CEO for the agency on 7th June 2016 following the resignation of Iain Bremner on 31st May 2016. The PRA and Lloyd's advised their approval to Colin's appointment on 12th and 15th August 2016 respectively. Colin is an existing Capita employee who was the CEO of Corporate Insurance, within the Capita Insurance Services Division. For the period between 31st May and 12th August CMA invoked its succession plan which had previously identified the controlled functions to be covered by various executive directors.

Syndicate Annual General Meeting

Capita Managing Agency Limited (CMA) does not propose to hold an annual general meeting of members of the Syndicate. Members are asked to note that any objections to this proposal should be submitted, in writing, to the CMA Compliance Director within 21 days of this notice.

Related Party Transactions

The Syndicate did not enter into any related party transactions which were not concluded under normal market conditions. For a full listing of related party transactions please refer to note 22 of accounts.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT (continued)

Disclosure of Information to the Auditor

The directors of the managing agent who held office at the date of approval of this managing agent's report confirm that, so far as they are each aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditor

The managing agent proposes the re-appointment of Deloitte LLP as the Syndicate auditor.

By order of the Board

C M Grint
Director
21 March 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ('the 2008 Regulations') require the managing agent to prepare Syndicate annual accounts for each financial year. Under that law the managing agent has elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the result or loss of the Syndicate for that period.

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

1. select suitable accounting policies which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
2. make judgements and estimates that are reasonable and prudent;
3. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
4. prepare the 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 prevention and detection of fraud and other irregularities.

Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1492

We have audited the syndicate annual financial statements for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, and the Statement Of Cashflows 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".

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of 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, the managing agent is responsible for the preparation of syndicate annual financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual financial statements

An audit involves obtaining evidence about the amounts and disclosures in the annual financial statements sufficient to give reasonable assurance that the annual financial statements 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 financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1492 (continued)

Opinion on syndicate annual financial statements

In our opinion the annual financial statements:

- 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.

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 financial statements are prepared is consistent with the annual financial statements.

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

Andrew Downes ACA (Senior statutory auditor) for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
21 March 2017

INCOME STATEMENT
TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Gross premiums written	2	**42,815**	3,018
Outward reinsurance premiums		**(1,638)**	(9,451)
Net premiums written		**41,177**	(6,433)
Change in the provision for unearned premiums:			
Gross amount		**(21,866)**	(2,785)
Reinsurers' share		**(3,186)**	8,985
Change in the net provision for unearned premiums		**(25,052)**	6,200
Earned premiums, net of reinsurance		**16,125**	(233)
Allocated investment return transferred from the non-technical account		**15**	-
Claims paid:			
Gross amount		**(14,782)**	-
Reinsurers' share		**12,670**	-
Net claims paid		**(2,112)**	-
Change in claims outstanding:			
Gross amount		**(12,018)**	(132)
Reinsurers' share		**799**	-
Change in the net provision for claims	3	**(11,219)**	(132)
Claims incurred net of reinsurance		**(13,331)**	(132)
Net Syndicate operating expenses	4	**(13,364)**	(1,543)
Member's personal expenses	8	**(1,593)**	(232)
Balance on the technical account for general business		**(12,148)**	(2,140)

INCOME STATEMENT
NON-TECHNICAL ACCOUNT – GENERAL BUSINESS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	**2016 £000**	2015 £000
Balance on the technical account – general business		**(12,148)**	(2,140)
Investment income		**15**	-
Allocated investment return transferred to general business technical account		**(15)**	-
Exchange (losses)		**(288)**	(7)
(Loss) for the financial period		**(12,376)**	(2,147)

All operations relate to continuing activities. There is no other comprehensive income.

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STATEMENT OF FINANCIAL POSITION – ASSETS
AS AT 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Investments			
Other financial investments		**4,615**	-
Reinsurers' share of technical provisions			
Claims outstanding		**799**	-
Provision for unearned premium		**7,993**	9,157
		8,792	9,157
Debtors			
Debtors arising out of direct insurance operations	12	**8,615**	221
Debtors arising out of reinsurance operations	13	**9,787**	2,138
Other debtors	14	**465**	281
		18,867	2,640
Other assets			
Cash and cash equivalents		**1,091**	3
Overseas deposits		**2,400**	-
		3,491	3
Prepayments and accrued income			
Deferred acquisition costs		**4,866**	1,543
Other prepayments and accrued income		**804**	158
		5,670	1,701
Total assets		**41,435**	13,501

The notes on pages 27 to 62 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION – MEMBERS' BALANCES & LIABILITIES

AS AT 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Capital and reserves			
Total members' balances	15	**(14,523)**	(2,147)
Technical provisions			
Provision for unearned premium		**26,456**	2,822
Claims outstanding		**12,607**	132
		39,063	2,954
Creditors			
Creditors arising out of reinsurance operations	16	**838**	10,579
Amounts owed to credit institutions	17	**14,701**	1,354
		15,539	11,933
Accruals and deferred income	18	**1,356**	761
Total members' balances & liabilities		**41,434**	13,501

The financial statements on pages 25 to 62 were approved by the board of Capita Managing Agency Limited on 20 March 2017 and were signed on its behalf by:

C M Grint
Director
21 March 2017

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £000	2015 £000
Operating result		**(12,376)**	(2,147)
Cash flow from operating activities:			
Increase in gross technical provisions		**36,109**	2,954
Decrease/ (increase) reinsurers share of gross technical provisions		**364**	(9,157)
(Increase) in debtors		**(15,806)**	(2,640)
(Decrease)/ Increase in creditors		**(10,008)**	12,694
Movement in other assets / liabilities		**(4,882)**	(1,701)
Investment return		**(15)**	-
Net cash flow from operating activities		**(6,614)**	3
Cash flow from investing activities			
Purchase of debt instruments		**(6,999)**	-
Sale of debt instruments		**-**	-
Investment income received		**-**	-
Other		**(1)**	-
Net cash flow from investing activities		**(7,000)**	-
Net (decrease)/ increase in cash and cash equivalents		**(13,614)**	3
Cash and cash equivalents at beginning of period		**3**	-
Realised foreign exchange gains		**1**	-
Cash and cash equivalents at the end of the period		**(13,610)**	3
Cash and cash equivalents consists of:			
Cash at bank and in hand		**1,091**	3
Overdraft facilities	17 & 19	**(14,701)**	-
Cash and cash equivalents at end of period		**(13,610)**	3

NOTES TO THE FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2016

1. Accounting Policies

Statement of compliance

The financial statements have been prepared in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 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

The financial statements for the year ended 31 December 2016 were approved by the Board of Directors on 20 March 2017.

The financial statements are prepared in £ Sterling which is the functional and presentational currency of the Syndicate and rounded to the nearest £'000.

Having taken into account the risks and uncertainties and the performance of the syndicate as disclosed in the Report of the directors and making inquiries, the managing agent has a reasonable expectation that the syndicate will continue to write business for the foreseeable future. Moreover, the managing agent expects that continued capital support will be in place in order to do so. Accordingly, the financial statements have been prepared on the going concern basis.

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:

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

1. Accounting Policies (continued)

Judgements and key sources of estimation uncertainty (continued)

Insurance contract technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and also for the expected ultimate cost of claims incurred, but not reported (IBNR), at the reporting date. 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 the Chain Ladder method.

The main assumption underlying these standard actuarial claims projection 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 IBNR at the balance sheet date based on statistical methods.

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

Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

1. Accounting Policies (continued)

Judgements and key sources of estimation uncertainty (continued)

Fair value of financial assets and derivatives determined using valuation techniques
Syndicate 1492 does not have any financial assets or liabilities recorded on the statement of financial position whose fair values cannot be sourced from active markets. Syndicate 1492 has no need to use any valuation techniques to determine fair value.

Significant accounting policies

Insurance contracts – Product classification
Insurance contracts are those contracts when the Syndicate (the insurer/reinsurer) has accepted significant insurance risk from another party (the policyholder/reinsured) by agreeing to compensate the policyholder if a specified uncertain future event (the re/insured event) adversely affects the policyholders. As a general guideline, the Syndicate determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

Any separable embedded derivatives within an insurance contract are separated and accounted for in accordance with IAS 39 unless the embedded derivative is itself an insurance contract (ie the derivative is not separated if the policyholder benefits from the derivative only when the insured event occurs).

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

1. Accounting Policies (continued)

Gross Premiums

Gross written premiums comprise the total premiums receivable for the whole period of cover provided by the contracts entered into during the reporting period, regardless of whether these are wholly due for payment in the reporting period, together with any adjustments arising in the reporting period to such premiums receivable in respect of business written in prior reporting periods. They are recognised on the date on which the policy commences. Additional or return premiums are treated as a re-measurement of the initial premium. Gross written premiums are stated gross of brokerage payable and exclude taxes and duties levied on them.

Under some policies, written premiums are adjusted retrospectively in the light of claims experience or when the risk covered cannot be assessed accurately at the commencement of cover. When written premiums are subject to an increase retrospectively, recognition of any potential increase is deferred until the additional amount can be ascertained with reasonable certainty. When written premiums are subject to a reduction, a re-measurement taking account of such a reduction is made as soon as there is an obligation to the cover-holder.

Reinsurance Premiums

Reinsurance written premiums comprise the total premiums payable for the whole cover provided by contracts entered into the period, including portfolio premiums payable, and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience or where the risk covered cannot be assessed accurately at the commencement of cover. When written premiums are subject to an increase retrospectively, recognition of any potential increase is recognised as soon as there is an obligation to the policyholder.

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

Profit commission

No Profit Commission is payable by any member of the Syndicate to the Managing Agent.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

1. Accounting Policies (continued)

Claims

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.

Technical provisions

Technical provisions comprise claims outstanding and provisions for unearned premiums.

Claims outstanding

The outstanding claims provision is based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money.

Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. In respect of general insurance business, written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard, where appropriate, to the incidence of risk. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses-occurring contracts.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

1. Accounting Policies (continued)

Deferred acquisition costs

Acquisition costs comprise costs arising from the conclusion of insurance contracts, including direct costs, such as intermediary commissions and indirect costs, such as the administrative expenses connected with the processing of proposals and the issuing of policies. Deferred acquisition costs are costs arising from conclusion of insurance contracts that are incurred during the reporting period but which relate to a subsequent reporting period and which are carried forward to subsequent reporting periods. Deferred acquisition costs are amortised over the period in which the related premiums are earned. The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset amortisation is recorded in the income statement. Commissions receivable on outwards reinsurance contracts are deferred and amortised on a straight line basis over the term of the expected premiums payable.

Reinsurance assets

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders.

Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method. The carrying value of insurance receivables is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the income statement.

Insurance receivables are de-recognised when the de-recognition criteria for financial assets have been met.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

1. Accounting Policies (continued)

Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration received less directly attributable transaction costs.

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.

Purchases and sales of financial assets are recognised on the trade date, ie 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 the profit and loss at inception. All of the Syndicate's financial assets are held for trading. 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.

Derivative financial instruments

The Syndicate does not use derivative financial instruments.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

1. Accounting Policies (continued)]

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. Overdrafts are reported separately in creditors.

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.

Analysis of the fair value of the syndicate's investments is contained in note 23.

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. If an available for sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from other comprehensive income in members' balance to the income statement. Impairment losses recognised in the income statement in respect of an equity instrument are not subsequently reversed through the income statement. Reversals of impairment losses on debt instruments classified as available for sale are reversed through the income statement, if the increase in the fair value of the instruments can be objectively related to an event occurring after the impairment losses were recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

De-recognition 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.

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.

Financial liabilities

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

***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. Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the Balance Sheet date and their valuation at the previous Balance Sheet date, or purchase price, if acquired during the financial year, together with the reversal of unrealised gains and losses recognised in earlier financial years in respect of investment disposals in the current financial year.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

Foreign currencies

The Syndicate's functional and also reporting 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 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 exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. 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.

The following rates of exchange have been used in producing this annual report:

		US$	Can$	Euro
Closing rate of exchange	**31 December 2016**	**1.23**	**1.66**	**1.17**
Average rate of exchange	**Calendar year 2016**	**1.36**	**1.81**	**1.23**
Closing rate of exchange	31 December 2015	1.48	2.04	1.36
Average rate of exchange	1 October to 31 December 2015	1.52	2.02	1.39

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 are included in the statement of financial position under the heading 'other debtors'. No provision has been made for any overseas tax payable by members on underwriting results.

Pension costs

No pension costs are directly borne by the syndicate.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

2. Segmental Analysis

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

2016	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct Insurance:						
Energy	**269**	**130**	**(13,568)**	**(94)**	**12,687**	**(845)**
Fire and other damage to property	**5,436**	**2,179**	**(418)**	**(1,899)**	**(678)**	**(816)**
Third party liability	**11,114**	**3,251**	**(2,204)**	**(3,883)**	**(213)**	**(3,049)**
	16,819	**5,560**	**(16,190)**	**(5,876)**	**11,796**	**(4,710)**
Reinsurance	**25,996**	**15,387**	**(10,610)**	**(9,081)**	**(3,149)**	**(7,453)**
Total	**42,815**	**20,947**	**(26,800)**	**(14,957)**	**8,647**	**(12,163)**

2015	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
Direct Insurance:						
Fire and other damage to property	**239**	**47**	**(10)**	**(141)**	**(42)**	**(146)**
Third party liability	**58**	**3**	**(3)**	**(34)**	**-**	**(34)**
	297	**50**	**(13)**	**(175)**	**(42)**	**(180)**
Reinsurance	**2,721**	**183**	**(119)**	**(1,600)**	**(424)**	**(1,960)**
Total	**3,018**	**233**	**(132)**	**(1,775)**	**(466)**	**(2,140)**

All of the £42,815,000 gross premiums written were underwritten in the UK.

The geographical analysis of gross premiums written by location of risk is as follows:

	2016 £'000	**2016 %**	2015 £'000	2015 %
Worldwide	**17,574**	**41.0**	-	-
Latin America	**6,393**	**14.9**	1,994	66.1
Europe excluding United Kingdom	**5,415**	**12.6**	199	6.6
United Kingdom	**5,392**	**12.6**	73	2.4
Oceania	**2,552**	**6.0**	14	0.5
Caribbean	**2,258**	**5.3**	61	2.0
Middle East	**1,702**	**4.0**	469	15.5
Asia	**1,358**	**3.2**	200	6.6
Africa	**171**	**0.4**	8	0.3
Total	**42,815**	**100.0**	3,018	100.0

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

3. Change in Net Provision for Claims

The change in net provision for claims is made up of the following:

	2016 £000	2015 £000
Gross claims incurred	**11,773**	129
Provision for unallocated loss adjustment expenses	**245**	3
Reinsurers' share of claims incurred	**(799)**	-
Total	**11,219**	132

4. Net Syndicate Operating Expenses

	2016 £000	2015 £000
Brokerage and commissions	**7,205**	607
Other acquisition costs	**556**	68
Gross acquisition costs	**7,761**	675
Change in deferred acquisition costs	**(3,635)**	(1,517)
Earned acquisition costs	**4,126**	(842)
Reinsurers' commissions and profit participations	**(462)**	930
Net acquisition costs	**3,664**	88
Administrative expenses – other	**11,293**	1,687
Total	**14,957**	1,775

"Administrative expenses – other" include interest payable amounts of £179,000 (2015: £4,000) and members' standard expenses of £1,593,000 (2015: £232,000). Further analysis of members' standard expenses is contained within Note 8 to these financial statements.

Brokerage and commissions in respect of gross earned premium, derived from direct & facultative business amounted to £2,660,000 (2015: £55,000)

Administrative expenses include fees payable to the auditors and its associates (exclusive of VAT)	**2016 £000**	2015 £000
An analysis of the auditor's remuneration is as follows:		
Audit fees:		
Fees payable to the Syndicate's auditor for the audit of these financial statements	27	17
Non-audit fees:		
Other services pursuant to legislation	60	7
Statement of actuarial opinion	45	26
Total non-audit fees	106	33

Other services pursuant to legislation include fees for the Syndicate year end audit of Solvency II balance sheet.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

5. Staff Numbers and Costs

The number of employees employed at the period end by CMA and who worked either in part or whole for the Syndicate during the period was as follows:

	2016	2015
Administration and Finance	**18**	11
Underwriting	**1**	1
Total	**19**	12

CMA received a Managing Agent's fee of £726,000 (2015: £174,000) which was charged to the Syndicate. These amounts include estimated amounts for directors and staff related costs. No emoluments of the directors of CMA were directly charged to the Syndicate and consequently no meaningful disclosure can be made.

CMA has also recharged various expenses which have been properly incurred on Syndicate 1492's behalf; these amounted to £1,042,000 for the year ended 31 December 2016 (2015: £373,000).

6. Active Underwriter's Emoluments

Ash Bathia, Syndicate 1492's Active Underwriter, is engaged by way of a secondment deed between Capita Managing Agency Limited and Probitas 1492 Services Limited and himself. The amount recharged to the Syndicate in respect of his total emoluments for the year ended 31 December 2016 was £526,000 (2015: £88,000).

7. Investment Return

	2016 £'000	2015 £'000
Income from financial investments	**15**	-

As the syndicate started writing in October 2015, for the period ending 31 December 2015, there were no financial investments to report.

NOTES TO THE FINANCIAL STATEMENTS (continued)

AS AT 31 DECEMBER 2016

Average amount of funds available for investment during the year:

	2016 £'000	2015 £'000
Sterling	**(4,815)**	(703)
United States Dollars	**2,046**	1
Canadian Dollars	**2,491**	-
Euros	**601**	-
Total	**323**	(702)

Gross calendar year investment yield:

	2016 %	2015 %
Sterling	**0.00%**	0.00%
United States Dollars	**0.03%**	0.00%
Canadian Dollars	**0.28%**	0.00%
Euros	**0.00%**	0.00%
Total	**0.31%**	0.00%

8. Member's Personal Expenses

	2016 £000	2015 £000
Managing agent's fee	**726**	159
Central Fund	**642**	58
Lloyd's Subscriptions	**225**	15
Total	**1,593**	232

For 2016 Central Fund and Subscriptions are levied at 0.5% of written premium net of brokerage. A new corporate member which joins Lloyd's and participates on one or more new Syndicates and thereby immediately accesses the Lloyd's brand, reputation and accumulated value has the Central Fund levied at 1.4% for the first three years.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

9. Financial Investments

	Market value 2016 £'000	Cost 2016 £'000	Market value 2015 £'000	Cost 2015 £'000
Shares and other variable securities and units in unit trusts:				
Designated at fair value through profit & loss	**4,615**	**4,615**	-	-
Total	**4,615**	**4,615**	-	-

The difference between the preceding table and that contained within note 23, fair value estimation, is due to the inclusion of overseas deposits of £2,400,000 (2015: nil) and an overdraft of £14,701,000 (2015: £1,300,000). Definitions of the fair value levels are contained within note 1.

10. Reconciliation of Insurance Balances

The reconciliation between the opening and closing balance of unearned premium is made up of the following:

	2016		2015	
	Gross £'000	**Reinsurers' share £'000**	Gross £'000	Reinsurers' share £'000
Brought forward	**2,822**	**(9,157)**	-	-
Premiums written	**42,815**	**(1,638)**	3,018	(9,451)
Premiums earned	**(20,949)**	**4,824**	(233)	466
Premium provision movement	**21,866**	**(5,971)**	2,785	(8,985)
Foreign exchange	**1,768**	**(2,022)**	37	(172)
Carried forward	**26,456**	**(7,993)**	2,822	(9,157)

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

The reconciliation between the opening and closing balance of claims outstanding is made up of the following:

	2016		2015	
	Gross	**Reinsurers' share**	Gross	Reinsurers' share
	£000	**£000**	£000	£000
Brought forward	**(132)**	**-**	-	-
Change in claims provision	**(11,773)**	**799**	(129)	-
Provision for unallocated loss adjustment expenses	**(245)**	**-**	(3)	-
	(12,018)	**799**	(132)	-
Foreign exchange	**(457)**	**-**	-	-
Carried forward	**(12,607)**	**799**	(132)	-

11. Reconciliation of Deferred Acquisition Costs

The reconciliation between the opening and closing balance of claims outstanding is made up of the following:

	2016		2015	
	Gross	**Reinsurers' share**	Gross	Reinsurers' share
	£000	**£000**	£000	£000
Brought forward	**1,543**	**-**	-	-
Change in deferred acquisition costs	**3,903**	**(268)**	1,517	
	5,446	**(268)**		
Foreign exchange	**(302)**	**(10)**	26	-
Carried forward	**5,144**	**(278)**	1,543	-

12. Debtors Arising Out of Direct Insurance Operations

	2016	2015
	£000	£000
Total Amounts due from policyholders – within one year	**8,615**	221

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

13. Debtors Arising Out of Reinsurance Operations

	2016 £000	2015 £000
Amounts due from intermediaries – within one year	**9,787**	2,138

14. Other Debtors

	2016 £000	2015 £000
Amounts due - within one year	**465**	281

15. Reconciliation of Members' Balances

	2016 £000	2015 £000
Members' balances brought forward	**(2,147)**	-
(Loss) for the period	**(12,376)**	(2,147)
Members' balances carried forward	**(14,523)**	(2,147)

The members participate on the Syndicate by reference to years of account and its ultimate results, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of its membership of a particular year. The first complete calendar year of operation for the Syndicate was 2016. For the period ending 31 December 2015 the Syndicate wrote for the last three months of the year only.

16. Creditors Arising Out of Reinsurance Operations

	2016 £000	2015 £000
Amounts due to intermediaries - within one year	**838**	10,579

17. Amounts Owed to Credit Institutions

	2016 £000	2015 £000
Amounts due within one year	**14,701**	1,354

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

18. Accruals and Deferred Income

	2016 **£000**	2015 £000
Amounts due within one year	**1,078**	761

The balance above relates to various operating expenses.

19. Statement of Cash Flows

Cash inflows from overdrafts of £14,701,000 are included in cash and cash equivalents as they form an integral part of the cash management of the Syndicate.

20. Post Balance Sheet Events

The reduction in the Ogden rate has no impact on the Syndicate's financial position at 31 December 2016. There have been no other post balance sheet events which require disclosure or an adjustment to the financial statements for the period 1 January to 31 December 2016.

21. 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 underwriting 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. Generally, 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. For its first two years of trading, the Syndicate's capital requirement has been determined by Lloyd's.

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 member's FAL to meet liquidity requirements or to settle losses.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

22. Related Parties

The following entities are referred to by their abbreviation throughout this note:

	Entity's legal name	**Abbreviation**
	Capita and subsidiaries:	
1	Capita plc	Capita
2	Capita Insurance Services Holdings Limited	CISH
3	Capita Commercial Insurance Services Limited	CCIS
4	Capita Managing Agency Limited	CMA
5	Probitas Corporate Capital Limited *(formerly Istmo Re Corporate Capital Limited)*	Probitas Corporate
6	Istmo Compania de Reaseguros Inc.	Istmo Re
7	Probitas 1492 Services Limited	Probitas
8	Probitas Investments Limited	Probitas Investments

Interests of the Managing Agent

CMA managed Syndicates 1492 and 2255 throughout 2015. Syndicate 1492 has been managed by CMA since its inception under what is known as a “turnkey arrangement”. CMA has charged a managing agency fee of £726,000 to Syndicate 1492 during the reporting period (2015 £174,000 to Syndicate 1492 during the period 1 October 2015 to 31 December 2015). Capita, CMA, Probitas Corporate, Istmo Re and Probitas all entered into a Third Party Syndicate Management Agreement (TPSMA) in respect of Syndicate 1492 on 5 October 2015.

CMA has recharged various expenses which have been properly incurred on Syndicate 1492's behalf amounting to £1,042,000 during the reporting period (£373,000 during the period 1 October 2015 to 31 December 2015). Amounts outstanding at each reporting period end were £195,000 and £373,000 respectively.

Interests and Arrangements of Any Related Companies

Disclosed below are those transactions or arrangements entered into on behalf of, or otherwise concerning the member of, the Syndicate in which any related company of CMA has, directly or indirectly, a material interest:

CMA's immediate direct holding company is CISH. CMA and CCIS are wholly owned subsidiaries of Capita.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

22. Related Parties (continued)

CMA entered into an agreement with CCIS on 5 October 2015 for the provision of outsourced underwriting support and other related administration services for Syndicate 1492. During the reporting period £782,000 was charged to Syndicate 1492 in respect of services provided by CCIS (£96,000 during the period 1 October 2015 to 31 December 2015). Amounts outstanding at each reporting period end were £228,000 and £96,000 respectively.

CMA entered into a Delegated Authority Agreement with Probitas on 5 October 2015 for the provision of underwriting and other related administration services for Probitas Syndicate 1492.

Ash Bathia is Syndicate 1492's Active Underwriter and is engaged by way of a secondment deed entered into between CMA, Probitas and himself on 5 October 2015.

23. Risk management

(a) Governance framework

The primary objective of the Syndicate's risk and financial management framework is to protect the Syndicate's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Managing Agent has established a risk management function for the Syndicate with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a Syndicate policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(a) Governance framework

The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate business plan, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including the articulation of 'risk appetite'. The Syndicate regularly undertakes a process known as "Own Risk & Solvency Assessment" (ORSA) which is reviewed by the Audit & Risk Committee and finally approved by the board.

(b) 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.

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 1492 is not disclosed in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(b) Capital management objectives, policies and approach (continued)

Lloyd's capital setting process

Probitas Syndicate 1492 is a new entrant and Lloyd's has determined its underwriting capital requirements for both 2015 and 2016 years of account. For established Syndicates, in order to meet Lloyd's requirements, each Syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each Syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

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

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position, represent resources available to meet members' and Lloyd's capital requirements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(c) Insurance risk

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 sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Syndicate purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded may be placed on both a proportional and non–proportional basis. The majority of any proportional reinsurance which might be ceded is likely to be quota–share reinsurance which would be taken out to reduce the overall exposure to certain classes of business. Non–proportional reinsurance is primarily excess of loss reinsurance and is usually designed to mitigate the Syndicate's net exposure to catastrophe losses. Retention limits for the excess of loss reinsurance will vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Syndicate has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The Syndicate principally issues the following types of general insurance contracts: Property and Casualty and risks usually cover twelve months duration.

The Syndicate's most significant risks arise from natural disasters. For longer tail casualty claims that take some years to settle, there is also inflation risk.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(c) Insurance risk (continued)

Variability in claims and hence profits is a significant risk to the Syndicate. This is mitigated by writing a diverse range of products including diversification by industry sector and geography. The Syndicate has an agreed maximum and normal line size for each underwriting team. It also has a reinsurance strategy and purchasing plan to mitigate the effects of individual large losses and events. The pricing of the business includes the consideration of inflation and other economic factors. Operational risk can also increase the volatility of profits. This risk is mitigated by strict claim handling procedures and frequent investigation of possible fraudulent claims

The Syndicate has an overarching risk appetite expressed in terms of the Solvency Capital Requirement on an ultimate basis which is not to exceed this figure by more than 15% on an on-going basis. (This is consistent with the definition of a “major change” which would require an updated plan to be submitted and approved by Lloyd’s). The Syndicate also has a subsidiary risk appetite for natural catastrophe exposure which is primarily to limit exhaustion of the reinsurance programme to be less than a 1 in 200 level on an occurrence basis.

The Syndicate uses commercially available proprietary risk management software to assess catastrophe exposure. However, there is always a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an un-modelled event are greater than those arising from a modelled event.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(c) Insurance risk (continued)

The Property D&F account written during 2016 is exposed to catastrophe type losses.

Major Loss	Estimated gross claims £'000	Estimated net claims £'000
31 December 2016		
Ecuador Earthquake	**248**	**248**
Hurricane Matthew	**1,498**	**1,498**
Husky Energy Oil Spill	**13,152**	**603**

Of the major losses denoted above, only the Husky Energy Oil Spill constitutes a major loss for the syndicate. Both the Ecuador Earthquake and Hurricane Matthew have been included as these meet the Lloyd's criteria for market wide major losses. The syndicate did not have any exposure to major losses in the three months of operation to 31 December 2015. All losses are converted at closing rates of exchange.

Reserves have been assessed across the whole underwriting portfolio on an entirely assumed basis using the Lloyd's approved Syndicate business plan loss ratios. The geographical analysis of the risks underwritten shown below illustrates to how the claims might settle if the reserves were to crystallise and settle as actual claims in an equivalent manner.

	2016 £'000	**2016 %**	2015 £'000	2015 %
UK	**4,164**	**32.9**	3	2.4
Worldwide	**4,722**	**37.3**	-	-
Europe excluding UK	**2,937**	**23.2**	9	6.6
Middle East	**240**	**1.9**	21	15.5
Caribbean	**240**	**1.9**	3	2.0
Latin America	**165**	**1.3**	88	66.1
Oceania	**139**	**1.1**	1	0.5
Asia	**-**	**-**	8	6.6
Africa	-	**-**	1	0.3
Total	**12,607**	**100.0**	132	100.0

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(c) Insurance risk (continued)

The following table sets out the concentration of outstanding claims liabilities by class:

Class	2016 £'000	2016 %	2015 £'000	2015 %
Property	**7,474**	**60.5**	113	87.6
Construction	**508**	**4.1**	-	-
Property D & F	**7,982**	**65**	113	87.6
Financial Lines	**1,513**	**12.2**	-	-
Casualty UK	**773**	**6.3**	-	-
Casualty Rest of World	**2,092**	**16.9**	16	12.4
Casualty	**4,378**	**35.4**	16	12.4
Total	**12,360**	**100.0**	129	100.0

These data do not include ULAE

Key assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of average claim costs, claim handling costs, claim inflation factors and claim numbers for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once–off occurrence; changes in market factors such as public attitude to claiming: economic conditions: as well as internal factors such as portfolio mix, policy conditions and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(c) Insurance risk (continued)

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

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. The correlation of assumptions will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis.

Two key areas of uncertainty for Syndicate 1492 relate to the lack of any own historical data, and the small population of risks underwritten.

For illustrative purposes the following table indicates the impact of various percentage changes to the booked reserves. The calculations have been carried out on a linear basis and without any actuarial adjustments or application of expert judgement.

Change in assumption + / (-) %	Impact on Gross Liabilities £'000	Impact on Net Liabilities £'000	Impact on Profit/ Loss £'000	Impact on Members' Balance £'000
10/ (10)	1,261/ (1,261)	1,181/ (1,181)	1,181/ (1,181)	1,181/ (1,181)
50/ (50)	6,304/ (6,304)	5,904/ (5,904)	5,904/ (5,904)	5,904/ (5,904)
100/ (100)	12,607/ (12,607)	11,808/ (11,808)	11,808/ (11,808)	11,808/ (11,808)
200/ (200)	25,214/ (25,214)	23,616/ (23,616)	23,616/ (23,616)	23,616/ (23,616)

Positive changes to assumptions represent a decrease of the liability.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(c) Insurance risk (continued)
Sensitivities

Claims development table

The following table shows the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year 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 at the end of the underwriting year. The impact of exchange differences is shown at the bottom of the table.

In setting claims provisions the Syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(c) Insurance risk (continued)

Sensitivities

Claims development table

Insurance contract outstanding claims provision by year of account (YOA) as at 31 December 2016:

	2016 YOA		2015 YOA	
Underwriting year	Gross £'000	Net £'000	Gross £'000	Net £'000
Estimate of cumulative claims incurred:				
At end of underwriting year	22,881	9,559	132	132
12 months later	-	-	4,202	4,198
Current estimate of cumulative claims incurred	22,881	9,559	4,202	4,198
Cumulative claims paid				
At end of underwriting year	13,813	1,285	-	-
12 months later	-	-	664	664
Cumulative payments to date	13,813	1,285	664	664
Outstanding claims provision at 31 December 2016	9,069	8,274	3,538	3,534

All data are at closing rates of exchange.

(d) Financial risk

(1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. A credit risk policy describes the assessment and determination of what constitutes credit risk for the Syndicate. Compliance with the policy is monitored and exposures and any breaches are reported initially to the Syndicate Monitoring Committee. Emphasis is currently placed on reinsurer security premium receivable from intermediaries. The policy is reviewed at least annually.

Management performs an assessment of creditworthiness of both reinsurers and brokers and updates the reinsurance purchase strategy, while also considering suitable allowance for impairment.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(d) Financial risk (continued)

(1) Credit risk

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by CMA's 'Broker Vetting & Reinsurance Security Group' (BVRSG) and are subject to regular reviews.

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.

	Neither past due nor impaired £'000	Past due £'000	Impaired £'000	Total £'000
31 December 2016				
Shares and other variable yield securities and unit trusts	**4,615**	**-**	**-**	**4,615**
Overseas deposits	**2,400**	**-**	**-**	**2,400**
Reinsurer' share of claims outstanding	**799**	**-**	**-**	**799**
Reinsurance debtors	**479**	**-**	**-**	**479**
Cash at bank and in hand	**1,091**	**-**	**-**	**1,091**
Insurance debtors	**8,615**	**-**	**-**	**8,615**
Other debtors	**23,436**	**-**	**-**	**23,436**
Total credit risk	**41,435**	**-**	**-**	**41,435**
31 December 2015				
Cash at bank and in hand	3	-	-	3
Insurance debtors	2,359	-	-	2,359
Other debtors	281	-	-	281
Total credit risk	2,643	-	-	2,643

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(d) Financial risk (continued)

(1) Credit risk

Assets which are past due but not impaired have been in arrears for less than 3 months from the reporting date.

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December by classifying assets according to Standard & Poor's credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated.

	AAA £'000	AA £'000	A £'000	BBB £'000	Less than BBB £'000	Not rated £'000	Total £'000
31 December 2016							
Shares and other variable yield securities	226	630	3,621	-	-	138	4,615
Overseas deposits	1,549	425	262	163	-	1	2,400
Reinsurer' share of claims outstanding	-	-	-	-	-	799	799
Reinsurance debtors	-	-	-	-	-	479	479
Cash & cash equivalents	-	-	1,091	-	-	-	1,091
Total credit risk	1,775	1,055	4,973	163	-	1,418	9,384
31 December 2015							
Cash & cash equivalents	-	-	3	-	-	-	3
Total credit risk	-	-	3	-	-	-	3

Maximum credit exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Syndicate's rating policy. The attributable risk ratings are assessed and updated regularly.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(d) Financial risk (continued)

(2) Liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between gross cash out-flows and expected reinsurance recoveries.

A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy will be monitored as the Syndicate develops and any exposures and breaches which might arise will be reported to the Investment committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Maturity profiles

	No maturity stated £'000	0-1 year £'000	1-3 year £'000	Total £'000
31 December 2016				
Claims outstanding	**-**	**6,439**	**6,168**	**12,607**
Creditors	**14,701**	**837**	**-**	**15,538**
Total credit risk	**14,701**	**7,276**	**6,168**	**28,145**
31 December 2015				
Claims outstanding	-	132	-	132
Creditors	-	11,932	-	11,932
Total credit risk	-	12,064	-	12,064

(3) 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 includes:

a. Currency risk
b. Interest rate risk

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(d) Financial risk (continued)

(3) Market risk

(a) Currency risk

A market risk policy exists that sets out the assessment and determination of what constitutes market risk for the Syndicate. As the Syndicate develops, compliance with the policy will be monitored and any exposures and breaches arising will be reported to the Investment committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

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 Dollars and Euros. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, by reporting currency, as follows**:**

Converted £'000	**UK £stg**	**US$**	**Euro €**	**Can$**	**Total Cnv**
31 December 2016					
Total assets	**8,271**	**27,880**	**5,208**	**10,133**	**41,435**
Total liabilities	**(24,810)**	**(30,414)**	**(6,110)**	**(2,110)**	**(55,958)**
Net assets	**(16,539)**	**(2,534)**	**(902)**	**8,023**	**(14,523)**
31 December 2015					
Total assets	1,803	11,653	45	-	13,501
Total liabilities	(3,470)	(12,133)	(45)	-	(15,648)
Net assets	(1,667)	(480)	-	-	(2,147)

The non-Sterling denominated net assets of the Syndicate may lead to a reported loss (depending on the mix relative to the liabilities), should Sterling strengthen against these currencies. Conversely, reported gains may arise should Sterling weaken.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(d) Financial risk (continued)

(3) Market risk

(a) Currency risk

The Syndicate will match its currency position wherever practicable, and so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates. As a result, the Syndicate holds a significant proportion of its assets in foreign currency investments.

Illustrative impact on result and member's balances if, relative to the year-end rates:	**2016 £'000**	2015 £'000
Sterling were to strengthen against other settlement currencies by:		
5%	**(96)**	23
10%	**(183)**	44
20%	**(336)**	80
Sterling were to weaken against other settlement currencies by:		
(5)%	**106**	(25)
(10)%	**224**	(53)
(20)%	**504**	(120)

While members' balances are net liabilities in converted sterling as at both 31 December 2016 and 2015, their compositions are significantly different. At 31 December 2015 each members' balance, analysed by pure settlement currency, were all net liabilities; as at 31 December 2016 the equivalent comprised a mixture of both net liabilities and net assets. This difference in composition, by pure settlement currency, gives rise to the apparent anomaly whereby if sterling were to strengthen against the current year end reported position it generates an illustrative loss on the current reported year end result but an illustrative profit for the prior year comparison. The converse relationship is true when illustrating a weakening of sterling against the other settlement currencies.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(d) Financial risk (continued)

(3) Market risk

(b) Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate holds no financial assets whose values might be impacted by a change in interest rates nor does it have any other significant concentration of interest rate risk. Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

As a result of the Syndicate's current situation, no analysis has been disclosed to illustrate possible movements in interest rates with all other variables held constant, which would show the impact on the result and members' balance of the effects of changes in interest rates since the Syndicate has only immaterial financial assets and liabilities.

The Syndicate is not exposed to equity price risk.

c) Fair value estimation

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Managing Agent applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data; in some cases management estimates as well as observable market inputs are used within the valuation model. There is no standard model and different assumptions would generate different results.

Fair values are subject to a control framework designed to ensure that input variables and output are assessed independently of the risk taker. These inputs and outputs are provided to us by our investment managers who derive them through a formal valuation committee.

NOTES TO THE FINANCIAL STATEMENTS (continued)
AS AT 31 DECEMBER 2016

23. Risk management (continued)

(d) Financial risk (continued)

(3) Market risk

c) Fair value estimation (continued)

The table below shows financial assets and liabilities carried at fair value through profit or loss (as disclosed in note 9) grouped into the level in the fair value hierarchy into which each fair value measurement is categorised.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
December 2016				
Shares and other variable securities and units in unit trusts	**4,615**	·	-	**4,615**
Overseas deposits	**15**	**2,385**	-	**2,400**
Borrowings	**(14,701)**	**-**	-	**(14,701)**
Total	**(10,071)**	**2,385** -	-	**(7,686)**
December 2015				
Borrowings	(1,354)	-	-	(1,354)
Total	(1,354)	-	-	(1,354)

Definitions of the fair value levels are contained within note 1.