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# Syndicate 3334

# Syndicate Annual Report and Accounts
31 December 2016

# Syndicate 3334 information

**Managing agent**
Hamilton Underwriting Limited

Registered office at:
St Helen's, 1 Undershaft
London EC3P 3DQ

Registered in England number 06684157

**Active underwriter**
Trevor Carvey

**Syndicate auditors**
Ernst & Young LLP
25 Churchill Place
London E14 5EY

**Syndicate bankers**
Barclays Bank PLC
1 Churchill Place
Canary Wharf
London E14 5HP

Citibank N.A.
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

Royal Trust Corporation of Canada
Royal Trust Tower
Toronto
Ontario M5W 1P9
Canada

**Syndicate external actuaries**
Willis Towers Watson Limited
Watson House
London Road
Reigate
Surrey RH2 9PQ

## Contents of Report and Accounts

## Report of the Managing Agent

The syndicate's managing agent is a company registered in England and Wales. The directors of the managing agent, Hamilton Underwriting Limited (the Company or HUL), present their report for the year ended 31st December 2016. The managing agent is currently responsible for managing the affairs of Syndicate 3334 only.

### Change of control in prior year

On 1st April 2015 the shareholding of the Company was sold by Wild Goose Holdings Pty Ltd, a company registered in Australia, to Hamilton UK Holdings Limited, a company registered in England and Wales. The Company was renamed from Sportscover Underwriting Limited to Hamilton Underwriting Limited. The ultimate parent company of HUL is Hamilton Insurance Group Ltd, a company registered in Bermuda.

### Principal activity

The syndicate's principal activity is the transaction of general insurance and reinsurance business.

### Statement of managing agent's responsibilities

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

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare syndicate annual accounts for Syndicate 3334 at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the syndicate as at that date and of its profit or loss for that year.

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

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

The managing agent is responsible for keeping proper accounting records 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 Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The managing agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

### Status of 2012, 2013 and 2014 years of account

During 2016 the Board of Directors voted to keep the 2013 and 2012 years of account in run-off due to on-going uncertainty over the final loss arising from a combination of factors, the most material being continuing assessment of the reserving position due to volatility experienced. The 2014 year of account was also placed in to run-off for the same reasons. For the 2014 year of account the reserving uncertainty is compounded by slow earning profile of this year of account with some residual exposure live in to 2017.

### Underwriting year accounts

A separate set of underwriting year accounts has been prepared on the traditional three year accounting basis in accordance with the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) for the 2014 year of account, which has, as described above, been placed in to run-off rather than closed. A set of run-off accounts has been prepared for each of the 2013 and 2012 years of account which were placed in to run-off at 31 December 2015 and 31 December 2014 respectively and remain in run-off, as detailed above. Accounts for these three years of account will be made available to syndicate members.

### Directors

The names of the persons who were directors of the managing agent at any time during the year and to the date of signing of this report are set out below:

Dermot O'Donohoe – Chief Executive Officer
Simon Barrett – Chief Financial Officer
Dominic Ford – Compliance Director and Company Secretary
Belinda Taylor – Finance Director
Peter Haynes – Chairman and Non-executive Director
Malcolm Beane – Non-executive Director
Brian Duperreault – Non-executive Director
Jonathan Reiss – Non-executive Director, appointed 17 August 2016
Adrian Walker – Non-executive Director, appointed 1 September 2016

The following non-executive directors resigned during the year:
Robert Deutsch – resigned 1 September 2016
Matthew Petzold – resigned 31 May 2016

### Review of the business

*Background*

Under the previous ownership structure, Syndicate 3334 was a specialist insurer of sport and leisure risks providing liability, personal accident, property and contingency cover. As referred to in the change of control paragraph on page 4 the managing agency was sold on the 1st April 2015. During 2015 the majority of the previous sports and leisure business was placed into run-off. This management action post change of control arose as a consequence of the consistently unprofitable nature of the previous business portfolio and a lack of strategic fit going-forward with the Hamilton group strategy. During 2015 the managing agency put forward new plans for 2016 which saw the implementation of the Hamilton group strategy to provide a diversified Lloyd's platform for the group's international business, benefiting from the Lloyd's brand, international licenses and strong ratings. The managing agency actively recruited specialist insurance and reinsurance underwriters to write this business with effect from 1st January 2016. The 2017 plan continues to build on this core base of five specialist areas covering treaty reinsurance, casualty/professional, speciality, property and space business, with an additional class underwriter being employed to write marine business.

Business written in 2015 solely related to the run off of the previous sports and leisure business supplemented by a small book of open market contingency business and business written via the Lloyd's China reinsurance platform, both of which have been retained.

*Capacity/Gross written premium*

The capacity of the 2016 year of account is £59.0m, supporting planned gross written premiums of £69.5m. The directors monitor business in line with the move by Lloyd's to a gross basis and gross written premium for the year ended 31 December 2016 was £61.9m. The forecast to ultimate at the same rates of exchange utilised in the business plan is £66.8m (or £75.6m at rates in force as at 31 December 2016).

# Report of the Managing Agent

### Review of activities in the year

*Overview*

The results for the year are set out on pages 14 and 15. On an annually accounted basis the result for the calendar year 2016 is a loss of £20,998,000 (2015: loss of £10,689,000). This is made up of a loss on the technical account of £19,137,000 (2015: loss of £11,061,000) plus an investment return of £660,000 (2015: return of £316,000) and exchange loss of £1,861,000 (2015: gain of £372,000). Each year of account is analysed separately within this section, the calendar year covering three open years of account and two run-off years. The key performance indicators for the calendar year are set out below:

| Key performance indicators | 2016 (Calendar Year) | 2015 (Calendar Year) |
|---|---|---|
| Capacity (underwriting year) | £59.0 million | £32.0 million |
| Gross premiums written | £61.8 million | £22.9 million |
| Gross premiums, net of acquisition costs | £50.9 million | £14.9 million |
| Acquisition costs as % of gross premiums | 17.7% | 34.9% |
| Combined ratio | 181.1% | 147.9% |
| Cash and investments | £17.0 million | £5.2 million |
| Cash held in overseas deposits | £11.8 million | £9.5 million |
| Net technical provisions | £50.8 million | £33.6 million |

As reported last year the very high combined ratio for 2015 was driven by the continued loss exposure of the syndicate and on-going expenses, at the same time as placing the majority of the business into run-off. The ratio for 2016 is driven by the following key factors:

- The older years have seen reserve volatility during CY16 which has been explained in comments set out in the year of account review below; as to be expected there are no premium movements of any note on the run-off years 2012 and 2013 to offset these reserve deteriorations and the earning out of premiums in 2014 YOA has also been lower than the recalibration of ultimate reserve losses.
- For the 2015 YOA the premiums attaching to this year of account are very low as set out above – as forecast this year of account has continued to incur administrative expenses against an abnormally low earned premium base – claims were also adjusted to reflect a late Contingency claim of around £0.5m (see year of account review).
- The new 2016 YOA was forecast to be loss making within the SBF as we bring the new Hamilton brand business in to the Syndicate on a lower premium base in year one than that needed to be written to cover all losses/costs and the Year 1 result is as expected when compared to the SBF at 12 months.

The Board of Directors voted in December 2015 to keep the 2012 year of account in run off for a second year and to also place the 2013 year of account into run-off, rather than to close this year at the 36 month mark.

During 2016 the Board of Directors commissioned external advisors to undertake a preliminary reinsurance to close ('RITC') review of the 2012-2014 years of account including an assessment of the adequacy of data available and likely considerations that would be taken in to account in order to price such a RITC. The Board of Directors determined that any closure, by way of an RITC, at this current year-end would unlikely to have been the best time and that a period of stability of the reserves is needed before undertaking significant further work in respect of such a potential RITC.

Therefore the Board of Directors voted to keep both the 2012 and 2013 years of account in run-off due to uncertainties over the final loss arising from a combination of factors, the main factor being the continuing assessment of the reserving position due to historic volatility experienced in the liability book, and also due to some residual tax issues and final premium reconciliations to close off. The Board of Directors also voted to place the 2014 year of account in to run-off as at 31 December 2016. Each of these three years has capital provided by the same corporate member, SCI Capital Limited, but with different third party reinsurers backing each year of account. Individual names have also provided capital for the 2012 and 2013 years of account. As the capital providers differ across these years and also going forward in to 2015 it is considered equitable to reduce the uncertainties on each year of account prior to close. The 2012 underwriting year of account had accepted a reinsurance to close of the prior years of account 2006-2011.

The key features of the results for the year ended 31st December 2016 are considered in the analysis by year of account, set out below. Hamilton has provided the Funds at Lloyd's for the 2015-2016 years of account. The Sportscover backed corporate member, SCI Capital Limited, has provided the Funds at Lloyd's for the 2012-2014 years of account, along with individual names on the 2012-2013 years of account.

## Review of activities in the year *continued*

*Year of account positions*

### *2016 year of account*

- *Cumulative GAAP loss of £7.0m;*
- *Gross written premiums of £61.9m and forecast to ultimate of £75.6m;*
- *Net earned premiums £17.8m;*
- *Net claims ratio as at 31 December 2016: 67.52% and forecast to ultimate of 63.96%;*
- *Net combined ratio as at 31 December 2016: 139.21% and forecast to ultimate: 107.44%.*

This was the first year of account writing business under the new Hamilton at Lloyd's platform. The Directors are pleased with the progress of the year, which is in line with plan. On a £ for £ value basis the actual and updated forecast numbers are not directly comparable to plan due to 65% of the business being denominated in US Dollars which has seen a significant change in rates of exchange following the Brexit referendum. On a percentage basis it is forecast that 96% of the planned gross written premium will be written.

The net loss ratios are, for the most part, being held close to plan. The exception to this is on some of the short tail lines, where ultimate net loss ratios have been able to be reduced, mainly in Property, as catastrophe margins have been released. The largest catastrophe exposure arose from Hurricane Matthew, with net ultimate losses from this event being forecast at USD 3.0m.

The net combined ratio to ultimate broadly remains on plan as expenses are controlled to within budget levels. Significant investment has been made by the Hamilton Insurance Group to build-out and support the 2016 year of account platform and future Hamilton years, with headcount in the managing agency having risen from 17 to 48 between the 2015 and 2016 year-ends. A new underwriting system has been successfully embedded and the use of technology and risk analytic tools remains key to supporting the Hamilton group philosophy.

### *2015 year of account*

- *Cumulative GAAP loss of £3.8m (31 December 2015: £1.9m) and forecast to ultimate of £4.5m;*
- *Gross written premiums of £2.3m (31 December 2015: £2.0m);*
- *Net claims ratio 166.77%.*

The 2015 business plan was compiled by the managing agency pre change of control and had a capacity of £32.0m with a forecast for stamp gross written premiums of £30.8m. As reported last year with the exception of business which had commenced writing before change of control in April 2015, comprising a Canadian sports binder, a small open market contingency book of business and business written via the Lloyd's China reinsurance platform, all of the previous year's sports and leisure business was placed in run-off during 2015. This has resulted in a stamp gross written premium of £1.7m only attaching to this year of account, and accordingly a higher than plan net claims ratio and a high net combined ratio.

### *2014 year of account*

- *GAAP loss of £4.4m for CY 2016 (cumulative GAAP loss: £11.3m);*
- *Ultimate loss forecast £11.6m;*
- *Movement in the year comprises £4.0m of earned premium less acquisition costs, claims charges of £(6.7)m, £(1.4)m of expense and provision charges, investment income of £0.1m and £(0.4)m of exchange movements.*
- *Net claims ratio 66.79% (31 December 2015: 61.98%).*

As set out on page 6 the Board of Directors have voted to place this year of account in to run-off rather than close at the 36 month mark.

**Review of activities in the year** ***continued***

*Year of account positions*

The main factor behind this decision was continued uncertainty over the ultimate loss ratio of the liability book, which remains the main class of business with outstanding reserving exposure. As at 31 December 2016 there was still some live exposure on this year of account and the key sports and leisure binders continued earning out until late 2016. As a consequence the short tail classes account for 18% of the gross claims reserves and are still subject to final adjustment.

Separate underwriting year accounts for the 2014 year have been prepared for the members of this year of account and a detailed review of the results of this particular year are included therein.

*2013 year of account*

- *GAAP loss of £2.9m for CY 2016 (cumulative GAAP loss £6.2m);*
- *Ultimate loss forecast £6.4m;*
- *Movement in the year comprises claims charges of £(2.5)m, additional reinsurance accruals of £(0.3)m, £(0.2)m of expense and provision charges and investment income of £0.1m.*

At a board meeting in December 2016 the Board of Directors voted to keep the 2013 year of account in run-off due to uncertainties over the final loss, the main factor being the continuing assessment of the reserving position due to volatility experienced in the liability book. During the year ended 31 December 2016 unfavourable actual versus expected experience was noted in the review carried out for the six months ended 30 June 2016, which led to the to the development pattern and prior loss assumptions being revised and additional IBNR being booked. For this year of account additional claims reserves, gross and net, have also been set aside for a large liability claim, arising from a serious sporting accident.

Separate underwriting year accounts for the 2013 year have been prepared for the members of this year of account and a detailed review of the results of this particular year are included therein.

*2012 year of account*

- *GAAP loss of £4.8m for CY 2016 (cumulative GAAP loss £17.2m);*
- *Movement in 2016 comprises claims charges of £(5.0)m, £(0.4)m of additional reinsurance accruals, £1.5m of expense and provision credits less charges, investment income of £0.4m and £(1.3)m of exchange movements.*

At a board meeting in December 2016 the Board of Directors voted to keep the 2012 year of account in run-off due to uncertainties over the final loss, the main factor being the continuing assessment of the reserving position due to volatility experienced in the liability book. During the year ended 31 December 2016 unfavourable actual versus expected experience was noted in the review carried out for the six months ended 30 June 2016, which led to the to the development pattern and prior loss assumptions being revised and additional IBNR being booked. A large Australian liability claim was settled in the year ended 31 December 2016, and two more events of significance remain under scrutiny.

Separate run-off year accounts for the 2012 year have been prepared for the members of this year of account and a detailed review of the results of this particular year are included therein.

### Review of activities in the year *continued*

### Future developments

The Syndicate continues to transact in the classes of general insurance and reinsurance business that it has transacted in during 2016. The agency continues with its strategy to write profitable business, and not to grow the top line at the expense of profitably. We continue to build out the infrastructure needed to support a fully-fledged Lloyd's syndicate, whilst ensuring we keep to a simple and relatively low cost operating model.

Whilst the risks to UK economic growth remain significant not least because of the UK's decision to leave the European Union ("EU") ("Brexit"), it should be noted that the proportion of business arising from the EU is not material to Syndicate 3334.

*Solvency II*
Effective 1 January 2016, all insurers including Lloyd's are subject to the Solvency II capital regime. Although the capital regime changed, this had not significantly impacted the Solvency Capital requirement of the syndicate, since this has been previously calculated based on Solvency II principles.

*Discount rate on personal injury awards*
On 27 February 2017 the Lord Chancellor announced a change to the discount rate applicable for personal injury damages awards from 2.5% to -0.75%, referred to in the industry as the Ogden discount rate. The reserves as at 31 December 2016 did not include any provision, implicit or explicit, for any future changes to this rate. We have estimated that the impact of this on the Syndicate's reserves is not material and therefore no adjustment has been made to reserves as at 31 December 2016.

*2017 year of account*
The Hamilton Group has provided the Funds at Lloyd's for the 2017 year of account. As business is predominantly written in US Dollars the capital base has been moved to US Dollars to avoid currency mismatching. The forecast gross written premium for this year of account is £122.5m, which builds on the 2016 year of account underwriting base (plan for 2016: £69.5m), enhanced by the addition of a marine class underwriter.

### Post balance sheet events
Post balance sheet events are discussed in Note 16 to the accounts.

### Principal risks and uncertainties
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. The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies.

The Board sets risk appetite annually as part of the syndicate's business planning and capital setting process. The risk management function is also responsible for reviewing the syndicate's Own Risk and Solvency Assessment (ORSA), recommending the assessment to the Board for approval.

### Principal risks and uncertainties *continued*

The principal risks and uncertainties facing the syndicate are set out below, including references to Note 18 where additional information relating to these risks are provided in the financial statements:

*Regulatory risk*
The agency is required to comply with the requirements of the PRA and FCA and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The agency has a compliance officer who monitors regulatory developments and assesses the impact on agency policy. He is supported by two assistants who carry out a compliance monitoring programme, the progress against which is reported to the Board on a quarterly basis.

*Insurance risk (Note 18(c))*
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. The objective of the syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The syndicate purchases reinsurance as part of its risks mitigation programme and the agency uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business.

The Board monitors performance and exposures against the business plan on a rolling monthly basis. Reserve adequacy is monitored through quarterly review by the syndicate actuary and the reserving committee.

*Credit risk (Note 18(d) (1))*
The key aspect of credit risk is the risk of default by one or more of the syndicate's reinsurers or other counterparties. Compliance with the credit risk policy is monitored and exposures and breaches are reported to the syndicate's finance and operations committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

*Liquidity risk (Note 18(d) (2))*
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 number of policies are implemented by the agency to mitigate against the risk of the syndicate being unable to settle its obligations as they fall due.

*Market risk (Note 18(d) (3))*
The key aspect of market risk is that the syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The agency's finance committee reviews currency matching quarterly. Where there is a significant mismatch, the agency seeks to mitigate the risk through forward foreign currency contracts, where this is appropriate.

*Interest rate risk*
The syndicate does not hold any investment assets that would be subject to interest rate risk.

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

### Research and development
The syndicate has not participated in any research and development activity during the period.

*Financial instruments and risk management*
The syndicate does not hold any financial instruments.

## Report of the Managing Agent *continued*

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

In the case of each of the persons who are directors of the managing agent at the date this report is approved:

- so far as the director is aware, there is no relevant audit information, being information needed by the syndicate auditors in connection with the auditor's report, of which the auditor is unaware; and
- having made enquiries of fellow directors of the managing agent and the syndicate's auditor, each director has individually taken all the necessary steps to make themselves aware, as a director, of any relevant audit information and to establish that the syndicate's auditor is aware of that information.

**Auditors**

Under the 2008 Regulations, the auditor is deemed to be reappointed in subsequent years if there is no objection. Ernst & Young LLP have indicated their willingness to continue in office as the independent auditor to the syndicate and it is proposed that the appointment remains in force.

**Annual general meeting of the syndicate members**

In accordance with the provisions of the 2008 Regulations, it is not intended to hold an annual general meeting with the members of Syndicate 3334, unless objections to this proposal or to the deemed reappointment of the auditor are received from the syndicate members. Any such objection should be made in writing to the registered office of the Managing Agent within 21 days of receipt of this statement.

**Dominic Ford**
*Director & Company Secretary*

Approved by the board of Hamilton Underwriting Limited on 15th March 2017

# Report of the Independent Auditor
## to the Members of Syndicate 3334

We have audited the syndicate annual accounts of syndicate 3334 ('the syndicate') for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 18. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts',

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

### Respective responsibilities of the managing agent and the auditor
As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 4, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

### Opinion on syndicate annual accounts
In our opinion the syndicate annual accounts:

- give a true and fair view of the syndicate's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

### Emphasis of matter – uncertainty over reinsurance to close
In forming our opinion on the Syndicate's Annual Report and Accounts, which is not modified, we have considered the adequacy of the disclosures made by the managing agent in the Report of the Managing Agent, relating to the uncertainty regarding the ultimate cost of a reinsurance to close which has resulted in the managing agent deciding to not close the 2012, 2013 and 2014 run-off years of account. The ultimate estimate of the reinsurance to close is subject to significant uncertainty and may differ materially from the estimate that is currently provided in the Annual Report and Accounts.

# Report of the Independent Auditor
**to the Members of Syndicate 3334 continued**

### Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008
In our opinion the information given in the Report of the Managing Agent for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

### Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

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

**Angus Millar**
*(Senior Statutory Auditor)*

For and on behalf of Ernst & Young LLP, Statutory Auditor
London

21st March 2017

## Income Statement
## Technical account – General business
*for the year ended 31st December 2016*

| | | Notes | 2016 £'000 | 2016 £'000 | 2015 £'000 | 2015 £'000 |
|---|---|---|---|---|---|---|
| Gross premiums written | | 2 | 61,833 | | 22,788 | |
| Outward reinsurance premiums | | | (14,173) | | (3,249) | |
| Change in the provision for unearned premiums | | | | | 5,710 | |
| Gross amount | | | (28,942) | | | |
| Reinsurers' share | | | 5,703 | | (1,493) | |
| Earned premiums, net of reinsurance | | 4 | | 24,421 | | 23,756 |
| Allocated investment return, transferred from the non-technical account | | | | 661 | | 316 |
| Claims paid | – Gross amount | | (21,722) | | (18,741) | |
| | – Reinsurers' share | | 7,230 | | 689 | |
| | | | (14,492) | | (18,052) | |
| Change in claims outstanding: | | | | | | |
| Gross amount | | | (19,681) | | (6,516) | |
| Reinsurers' share | | | 7,034 | | (2,781) | |
| Change in claims outstanding | | | (12,647) | | (3,735) | |
| Claims incurred, net of reinsurance | | 3 | | (27,139) | | (21,787) |
| Net operating expenses | | 6 | | (17,080) | | (13,346) |
| Balance on the technical account for general business | | | | (19,137) | | (11,061) |

## Income Statement
## Non-technical account – General business
*for the year ended 31st December 2016*

| | Notes | *2016* | *2015* |
|---|---|---|---|
| | | ***£'000*** | *£'000* |
| Balance on technical account general business | | **(19,137)** | (11,061) |
| Investment income | 9 | **661** | 316 |
| Allocated investment return transferred to the general business technical account | | **(661)** | (316) |
| Exchange gains and losses | | **(1,861)** | 372 |
| Loss for the financial year | | **(20,998)** | (10,689) |

There is no other comprehensive income in the accounting period other than dealt with in the technical and non-technical accounts.

## Statement of Changes in Members' Balances

*for the year ended 31st December 2016*

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Members' balances brought forward at 1st January | (19,910) | (13,701) |
| Loss for the financial year | (20,998) | (10,689) |
| Members' agents' fees | (20) | (20) |
| Transfers from members' personal reserves funds | 9,700 | 4,500 |
| Members' balances carried forward at 31st December | (31,228) | (19,910) |

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

## Statement of Financial Position
*as at 31st December 2016*

| | Notes | *2016* £'000 | £'000 | *2015* £'000 | £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| *Financial investments* | | | | | |
| Other financial investments | 10 | | 6,283 | | 4,242 |
| *Reinsurers' share of technical provisions* | | | | | |
| Provision for unearned premiums | 4 | 7,002 | | 934 | |
| Claims outstanding | 3 | 11,383 | | 3,855 | |
| | | | 18,385 | | 4,789 |
| *Debtors* | | | | | |
| Debtors arising out of direct insurance operations | 11 | 32,541 | | 11,959 | |
| Debtors arising out of reinsurance operations | | 2,738 | | 1,255 | |
| Other debtors | | 1,197 | | 888 | |
| | | | 36,476 | | 14,102 |
| *Other assets* | | | | | |
| Cash at bank and in hand | 13 | 10,671 | | 921 | |
| Overseas deposits | | 11,802 | | 9,526 | |
| | | | 22,473 | | 10,447 |
| *Prepayments and accrued income* | | | | | |
| Deferred acquisition costs | 5 | 7,620 | | 2,855 | |
| Other | | 1,191 | | 804 | |
| | | | 8,811 | | 3,659 |
| Total assets | | | 92,428 | | 37,239 |

## Statement of Financial Position *continued*

*as at 31st December 2016*

| | Notes | *2016* £'000 | *2016* £'000 | *2015* £'000 | *2015* £'000 |
|---|---|---|---|---|---|
| **Members' balances and liabilities** | | | | | |
| **Members' balances** | | | | | |
| Members' balances | | | (31,228) | | (19,910) |
| **Liabilities** | | | | | |
| *Technical provisions* | | | | | |
| Provision for unearned premiums | 4 | 40,443 | | 8,657 | |
| Claims outstanding | 3 | 62,137 | | 37,456 | |
| | | | 102,580 | | 46,113 |
| *Creditors* | | | | | |
| Creditors arising out of direct insurance operations | 12 | 2,475 | | 4,785 | |
| Creditors arising out of reinsurance operations | 12 | 12,016 | | 1,113 | |
| Amount due to credit institutions | 13 | 2,120 | | 1,316 | |
| Other creditors including taxation and social security | | 4,085 | | 2,905 | |
| | | | 20,696 | | 10,119 |
| Accruals and deferred income | | | 380 | | 917 |
| Total liabilities | | | 123,656 | | 57,149 |
| Total members' balances and liabilities | | | 92,428 | | 37,239 |

The financial statements on pages 14 to 43 were approved by the Board of Hamilton Underwriting Limited on 15th March 2017 and were signed on its behalf by:

**Belinda Taylor**
*Finance Director*

## Statement of Cash Flows
*for the year ended 31st December 2016*

| | Notes | 2016 £'000 | 2015 £'000 |
|---|---|---|---|
| *Loss for the financial year* | | (20,998) | (10,689) |
| Movement in general insurance unearned premiums and outstanding claims | | 56,467 | (1,030) |
| Movement in reinsurer's share of unearned premiums and outstanding claims | | (13,596) | (1,135) |
| Investment return | | (661) | (316) |
| Movements in other assets/liabilities | | (18,289) | 5,767 |
| *Net cash (outflow) / inflow from operating activities* | | 2,923 | (7,403) |
| *Investing activities* | | | |
| Investment income received | | 661 | 316 |
| Purchase of financial investments | | (1,886) | (2,791) |
| Sales of financial investments | | 1,030 | 1,266 |
| *Net cash (outflow) from investing activities* | | (195) | (1,209) |
| *Financing activities* | | | |
| Cash call | | 9,700 | 4,500 |
| Members' agents' fee advances | | (20) | (20) |
| *Net cash inflow from financing activities* | | 9,680 | 4,480 |
| Increase /(decrease) in cash and cash equivalents | | 12,408 | (4,132) |
| Cash and cash equivalents at 1 January | | (395) | 2,678 |
| Exchange differences on opening cash | | (3,462) | 1,059 |
| *Cash and cash equivalents at 31 December* | 13 | 8,551 | (395) |

# Notes to the Accounts

## 1. Accounting policies

*Statement of compliance*

The financial statements have been prepared in accordance 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.

*Basis of preparation*

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 15th March 2017.

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

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

*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 key uncertainty relates to claims provisions, the policy for which is set out in Note 1(a)(v).

*Significant accounting policies*

(a) *Basis of accounting*

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

(i) *Premiums written*

Premiums written comprise premiums on contracts incepted during the financial year. They also include estimates for pipeline premiums, representing amounts due to the syndicate not yet notified.

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

(ii) *Unearned premiums*

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

(iii) *Reinsurance premium ceded*

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

1. **Significant accounting policies** *continued*

(iv) *Claims incurred*

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

(v) *Claims provisions and related recoveries*

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

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

The amount included in respect of IBNR is based on informed by estimates from internal and external actuaries, who have applied statistical techniques of estimation and judgement applied by the syndicate's staff and reviewed by external consulting actuaries. These techniques generally involve projecting future claims development patterns using relevant benchmark data, and the Syndicate's own claims from past experience where relevant, for the relevant classes of business 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 there is no prior history in the Syndicate's own books, estimates may also be informed in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

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

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

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

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

(b) *Insurance contracts – Product classification*

Insurance contracts are those contracts when the syndicate has accepted significant insurance risk from another party (the policyholder) 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.

## Notes to the Accounts *continued*

1. **Significant accounting policies** *continued*

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.

(c) *Technical provisions*

Technical provisions comprise claims outstanding, provisions for unearned premiums and provisions for unexpired risks.

(d) *Unexpired risks provision*

A provision for unexpired risks is made where claims and related expenses likely to arise after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together.  No account is taken of any future investment return.

At 31 December 2016 and 31 December 2015 the syndicate did not have an unexpired risks provision.

(e) *Cash and cash equivalents and overseas deposits*

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 as defined above, net of outstanding bank overdrafts.  Short term deposits which are held in collective investment schemes are recognised as Financial Investments in the Statement of Financial Position.  The fair value of these short term deposits are valued using FRS 102 Level 2 hierarchy, being inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Financial assets are also held in overseas deposit funds which are valued using either Level 2 hierarchy or Level 1 being quoted (unadjusted) prices in active markets for identical assets or liabilities.

(f) *Derecognition of financial assets*

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

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

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

(g) *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.

## Notes to the Accounts *continued*

**1. Significant accounting policies** *continued*

(h) *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.

Trade and other payables and loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

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

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

*(i) Deferred acquisition costs*

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs, such as intermediary commissions or the cost of drawing up the insurance document or including the insurance contract in the portfolio, and indirect costs, such as the advertising costs or the administrative expenses connected with the processing of proposals and the issuing of policies.

Deferred acquisition costs are the direct 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.

The deferred acquisition costs are amortised over the period in which the related premiums are earned.

*(j) Reinsurance assets*

The syndicate cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

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.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2016 or 2015.

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

## 1. Significant accounting policies *continued*

(k) *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 derecognised when the de-recognition criteria for financial assets have been met.

(l) *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. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method. Insurance payables are derecognised when the obligation under the liability is settled, cancelled or expired.

(m) *Foreign currencies*

The syndicate's functional currency and presentation currency is Sterling.

Transactions denominated in currencies other than the functional currency are recorded at the average rates of exchange for the period.

Monetary assets and liabilities (which includes all assets and liabilities arising from insurance contracts including deferred acquisition costs and unearned premiums) denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet dates unless contracts to sell currency for Sterling have been entered into prior to the year end, in which case the contracted rates have been used.

Differences arising on the translation of foreign currency amounts are included in the non-technical account.

Amounts transferred to members are translated at the rate of exchange ruling at the date of payment except for the payment of closed year profits which are translated at the rate of exchange ruling at the previous balance sheet date.

(n) *Investments*

Investments are stated at current value at the balance sheet date. For this purpose listed investments and overseas deposits are stated at mid-market value and deposits with credit institutions are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the balance sheet date or the last trading day before that date.

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

1. **Significant accounting policies continued**

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

*(p) Operating expenses*

Where expenses are incurred by or on behalf of the managing agent on the administration of managed syndicates, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicates are apportioned between the agency company and the syndicates on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred. There has been no change in the basis of allocation in the year ended 31 December 2016 compared to the prior year.

*(q) 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 other overseas tax payable by members on underwriting results.

*(r) Pension costs*

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

*(s) Profit commission*

Profit commission is charged by the managing agent at a rate of 15% of profit subject to the operation of a deficit clause.

## Notes to the Accounts *continued*

### 2. Particulars of business written

*Type of business*

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

| 2016 | *Gross premiums written £'000* | *Gross premiums earned £'000* | *Gross claims incurred £'000* | *Gross operating expenses* £'000* | *Re-insurance balance £'000* | *Total £'000* |
|---|---|---|---|---|---|---|
| *Direct insurance:* | | | | | | |
| Accident and health | 4,911 | 2,283 | (976) | (42) | (261) | 1,004 |
| Aviation | 4,523 | 1,280 | (1,139) | (524) | (287) | (670) |
| Energy – Non Marine | 129 | 36 | 0 | (14) | (14) | 8 |
| Fire and other damage of property | 2,794 | 2,412 | (1,752) | (1,413) | 100 | (653) |
| Third party liability | 13,547 | 10,089 | (26,439) | (5,064) | 8,231 | (13,183) |
| Pecuniary loss | 4,025 | 2,860 | (2,721) | (3,079) | 43 | (2,897) |
| | 29,929 | 18,960 | (33,027) | (10,136) | 7,812 | (16,391) |
| Reinsurance | 31,904 | 13,931 | (8,376) | (6,944) | (2,018) | (3,407) |
| | 61,833 | 32,891 | (41,403) | (17,080) | 5,794 | (19,798) |

| 2015 | *Gross premiums written £'000* | *Gross premiums earned £'000* | *Gross claims incurred £'000* | *Gross operating expenses* £'000* | *Re-insurance balance £'000* | *Total £'000* |
|---|---|---|---|---|---|---|
| *Direct insurance:* | | | | | | |
| Accident and health | 2,728 | 5,206 | (2,889) | (2,986) | (548) | (1,217) |
| Fire and other damage to property | 4,029 | 5,907 | (8,003) | (2,401) | 473 | (4,024) |
| Third party liability | 13,972 | 14,995 | (11,948) | (7,001) | (804) | (4,758) |
| Pecuniary loss | 2,059 | 2,390 | (2,417) | (958) | (393) | (1,378) |
| | 22,788 | 28,498 | (25,257) | (13,346) | (1,272) | (11,377) |

## 2. Particulars of business written *continued*

### *Geographical analysis by origin*

| | *Gross premiums written* | | *Loss* | | *Net technical provisions* | |
|---|---|---|---|---|---|---|
| | ***2016 £'000*** | *2015 £'000* | ***2016 £'000*** | *2015 £'000* | ***2016 £'000*** | *2015 £'000* |
| *UK* | | | | | | |
| Direct/reinsurance accepted | 61,833 | 22,788 | (19,798) | (11,377) | (50,754) | (33,601) |

** Gross operating expenses are the same as net operating expenses shown in the income statement, as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2016.*

### *Geographical analysis by destination*

| | ***2016 £'000*** | *2015 £'000* |
|---|---|---|
| UK | 21,979 | 9,852 |
| EU | 5,041 | 2,455 |
| Other European | 623 | 387 |
| North America | 15,248 | 1,496 |
| Australasia | 2,651 | 8,228 |
| Other | 16,291 | 370 |
| | 61,833 | 22,788 |

## 3. Claims outstanding

**2016**

| | *Gross £'000* | *Reinsurer's share £'000* | *Net £'000* |
|---|---|---|---|
| At 1 January 2016 | 37,456 | (3,855) | 33,601 |
| Claims incurred in current underwriting year | 15,581 | (3,571) | 12,010 |
| Claims incurred in prior underwriting years | 25,822 | (10,693) | 15,129 |
| Claims paid during the year | (21,722) | 7,230 | (14,492) |
| Foreign exchange | 5,000 | (494) | 4,506 |
| As at 31 December 2016 | 62,137 | (11,383) | 50,754 |

### 3. Claims outstanding *continued*

| | 2015 | | |
|---|---|---|---|
| | *Gross* | *Reinsurer's share* | *Net* |
| | *£'000* | *£'000* | *£'000* |
| At 1 January 2015 | 32,218 | (1,156) | 31,062 |
| Claims incurred in current underwriting year | 1,078 | – | 1,078 |
| Claims incurred in prior underwriting years | 24,179 | (3,470) | 20,709 |
| Claims paid during the year | (18,741) | 689 | (18,052) |
| Foreign exchange | (1,278) | 82 | (1,196) |
| As at 31 December 2015 | 37,456 | (3,855) | 33,601 |

### 4. Provision for unearned premiums

| | *2016* | | |
|---|---|---|---|
| | *Gross* | *Reinsurer's share* | *Net* |
| | *£'000* | *£'000* | *£'000* |
| At 1 January 2016 | 8,657 | (934) | 7,723 |
| Premiums written in the year | 61,833 | (14,173) | 47,660 |
| Premiums earned in the year | (32,891) | 8,470 | (24,421) |
| Foreign exchange | 2,844 | (365) | 2,479 |
| As at 31 December 2016 | 40,443 | 7,002 | 33,441 |

| | *2015* | | |
|---|---|---|---|
| | Gross | Reinsurer's share | Net |
| | £'000 | £'000 | £'000 |
| At 1 January 2015 | 14,925 | (2,498) | 12,427 |
| Premiums written in the year | 22,788 | (3,249) | 19,539 |
| Premiums earned in the year | (28,498) | 4,742 | (23,756) |
| Foreign exchange | (558) | 71 | (487) |
| As at 31 December 2015 | 8,657 | (934) | 7,723 |

## Notes to the Accounts *continued*

### 5. Deferred acquisition costs

| | *2016* *£'000* | *2015* *£'000* |
|---|---|---|
| At 1 January | 2,855 | 5,706 |
| Change in deferred acquisition costs | 4,173 | (2,632) |
| Foreign exchange | 592 | (219) |
| As at 31 December | 7,620 | 2,855 |

### 6. Net operating expenses

| | *2016* *£'000* | *2015* *£'000* |
|---|---|---|
| Acquisition costs | 12,664 | 7,996 |
| Change in deferred acquisition costs | (4,173) | 2,632 |
| Administrative expenses | 8,589 | 2,718 |
| | 17,080 | 13,346 |

Administrative expenses include:

| | *£'000* | *£'000* |
|---|---|---|
| Auditor's remuneration | | |
| Audit of Syndicate annual accounts | 206 | 100 |
| Other services pursuant to Regulations & Lloyd's Byelaws | 37 | 30 |
| Standard personal expenses | 617 | 594 |

Fees charged to HUL for the statutory audit of the Company were £21,000 (2015: £14,000).

Total commissions for direct insurance accounted for in the year amounted to £6,270,000 (2015: £7,500,000).

### 7. Staff numbers and costs

a) All staff are employed by the managing agency. The following amounts were recharged to the syndicate in respect of salary costs:

| | *2016* *£'000* | *2015* *£'000* |
|---|---|---|
| Salary costs | 4,834 | 1,295 |
| Pensions | 380 | 60 |
| | 5,214 | 1,355 |

b) The average numbers of employees employed by the managing agency but working for the syndicate during the year was as follows:

| | *2016* *No.* | *2015* *No.* |
|---|---|---|
| Administration, compliance and finance | 29 | 13 |
| Underwriting and claims | 19 | 4 |
| | 48 | 17 |

### 8. Directors' emoluments

a) Emoluments of the directors of Hamilton Underwriting Limited.

HUL charged the syndicate the following amounts in respect of emoluments paid to its directors:

| | ***2016*** | *2015* |
|---|---|---|
| | ***£'000*** | *£'000* |
| Emoluments | 750 | 500 |

b) Emoluments of the Active Underwriter

Murray Anderson was Active Underwriter for the syndicate until 1st April 2015. Following change of control the Active Underwriter position was filled by Dermot O'Donohoe, Chief Executive Officer, until Trevor Carvey was appointed Active Underwriter on 1st November 2015.

The emoluments of the Active Underwriter as charged to the syndicate are shown below:

| | ***2016*** | *2015* |
|---|---|---|
| | ***£'000*** | *£'000* |
| Emoluments | 261 | 116 |

### 9. Investment return

| | ***2016*** | *2015* |
|---|---|---|
| | ***£'000*** | *£'000* |
| Income from investments | 839 | 481 |
| Losses on the realisation of investments | (178) | (165) |
| | 661 | 316 |

| | 2016 | 2015 |
|---|---|---|
| Average amount of syndicate funds available for investment during the year ("average funds") | £21.3 million | £14.2 million |
| Split: | | |
| Sterling/Euros | £3.3 million | £0.7 million |
| Dollars (primarily Australian dollars) | £18.0 million | £13.5 million |
| Investment return | £660,499 | £315,802 |
| *Calendar year investment yield:* | *%* | *%* |
| Sterling/Euros | 0.1 | 0.6 |
| Dollars | 3.7 | 2.3 |

## 10. Financial investments

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | ***Cost £'000*** | ***Market value £'000*** | *Cost £'000* | *Market value £'000* |
| Holdings in collective investment schemes | 6,283 | 6,283 | 4,242 | 4,242 |
| | 6,283 | 6,283 | 4,242 | 4,242 |

Under the amended FRS 102.11.27 the fair value hierarchy of the above investments are all included in the level 2 category). The cost, fair value and market value of these investment schemes are the same and are set out by currency below:

| | ***2016*** | | | |
|---|---|---|---|---|
| | ***£ '000*** | ***US$ '000*** | ***C$ '000*** | ***€ '000*** |
| Holdings in collective investment schemes | – | 2,738 | 6,704 | – |
| | – | 2,738 | 6,704 | – |

| | ***2015*** | | | |
|---|---|---|---|---|
| | ***£ '000*** | ***US$ '000*** | ***C$ '000*** | ***€ '000*** |
| Holdings in collective investment schemes | – | 85 | 8,577 | – |
| | – | 85 | 8,577 | – |

## 11. Debtors arising out of direct insurance operations

| | ***2016 £'000*** | *2015 £'000* |
|---|---|---|
| Amounts falling due within one year: | | |
| Intermediaries | 32,541 | 11,959 |

## 12. Creditors arising out of direct insurance and reinsurance operations

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Amounts falling due within one year: | | |
| Direct insurance operations | 2,475 | 4,785 |
| Reinsurance operations | 12,016 | 1,113 |
| | 14,491 | 5,898 |

## 13. Cash and cash equivalents

| | 2016 £'000 | 2015 £'000 |
|---|---|---|
| Cash at bank and in hand | 10,671 | 921 |
| Overdraft in current liabilities | (2,120) | (1,316) |
| | 8,551 | (395) |

## 14. Borrowings

During the period to 31st December 2016, the syndicate renewed unsecured overdraft facilities with Barclays Bank plc (Barclays), as a buffer against any timing differences between premium receipts and claims and other expense payments being made. This facility was available for use against the Sterling, Euro, US and Australian dollar accounts. The gross balance outstanding at Barclays at the balance sheet date across all years of account was £4,988,000 with an overall net positive position of £555,000. Balances overdrawn as at 31st December 2015 across all years of account were £1,469,000 gross and £578,000 net positive.

## 15. Related parties

Following a change of control on 1st April 2015 Hamilton Underwriting Limited (HUL), previously known as Sportscover Underwriting Limited, became a wholly owned subsidiary of Hamilton UK Holdings Limited. The ultimate parent company is Hamilton Insurance Group, Limited, a private company registered in Bermuda. This Note 15 describes the related parties of the Hamilton Insurance Group, Limited only.

Other than directorship fees, salaries and other related remuneration and any potential future investment earnings or growth in capital value arising from shareholdings in these or related companies, no personal benefit is derived by any of the directors from the related party arrangements that exist. All arrangements have been conducted at an arms-length basis.

*Transactions between the managing agent and the syndicate*
Total fees payable to HUL in respect of services provided to the syndicate for the 2016 year of account which incepted in the year end 31 December 2016 amounted to £1,033,000 (2015: £240,000), of which £155,000 remained unpaid as at 31 December 2016 (2015: £Nil) . From the 2010 year of account onwards the managing agent has been entitled to a 15% profit commission on the closing profits. The 2010 and 2011 year of accounts closed with losses therefore there is no profit commission payable to HUL from these years of account. It is forecast that all of the run-off and open years of account will also close at losses and therefore no profit commission will be payable on these years of account.

## 15. Related parties *continued*

In addition the managing agent recharged £3,406,000 of administrative expenses and other expenses paid on behalf of the syndicate in the year ended 31st December 2016 (2015: £308,000), 85% of which was charged for managing the Hamilton supported years 2016 and 2015 and 15% for managing the open 2014 year of account and run-off years of account 2013 and 2012. Amounts recharged for salary costs are disclosed in Note 7. As at 31 December 2016 HUL was owed £1,283,000 (2015: £1,111,000) for expenses charged but not yet reimbursed by the syndicate and £1,000,000 for monies loaned to the 2016 YOA and £500,000 (2015: £550,733) for monies loaned to the 2015 YOA. These creditors in the syndicate's accounts are repayable on demand and no interest is charged by the managing agent on the amounts due.

In addition the parent company of the managing agency recharged £71,000 of costs in the year ended 31 December 2016 (2015: £nil).

*Business transactions*
On 1st April 2015 Hamilton UK Holdings Limited also acquired 100% of the shares of Kinetic Insurance Brokers Limited (KIBL), a Lloyd's broker which provides placing broker services to the syndicate. Prior to 1st April 2015 KIBL was within the same group of companies as Sportscover Underwriting Limited and provided placing broker services to the syndicate for the whole of 2015. Of the total acquisition costs of £7,996,000 charged in 2015, a total brokerage amount of £378,000 was charged to Syndicate 3334 by KIBL, as converted to GBP at prevailing exchange rates. KIBL did not undertake any placing broker services for the 2016 year of account; their share of return premiums transacted in the year ended 31 December 2016 was £10,000.

Mr Brian Duperreault, Mr Robert Deutsch, Mr Malcolm Beane, Mr Dominic Ford and Ms Belinda Taylor were directors of Kinetic Insurance Brokers Limited until 30 September 2016 when the company was sold to an external party (Mr Duperreault until 9 September 2016). They had no interest in the share capital of this company and other than fees paid to Mr Malcolm Beane in his capacity as non-executive director, no director received any remuneration or other benefits for acting as a director of the company.

Hamilton Re Limited, a company based in Bermuda, participated on the syndicate's 2016 YOA reinsurance program, charging a premium of £1,336,000 (2015: £90,000), and as at 31 December 2016 a technical provision for reinsurance IBNR balances of £392,000 owing from Hamilton Re Limited was included in the balance sheet (2015: £nil). Mr Brian Duperreault and Mr Jonathan Reiss are directors of Hamilton Re Limited (and Mr Robert Deutsch until 1 September 2016). Other than directorship fees, salaries and other related remuneration, no personal benefit is derived by the individuals concerned from these arrangements.

### Capital support for Syndicate 3334

Hamilton Corporate Member Limited, has provided capital for the 2015 and subsequent years of account. Prior to that capital was provided by SCI Capital Limited, owned by Wild Goose Holdings Pty Ltd, supplemented by names capital. Mr Brian Duperreault, Mr Dermot O'Donohoe, Mr Malcolm Beane, Mr Dominic Ford and Mr Simon Barrett are directors of Hamilton Corporate Member Limited which participates on Syndicate 3334 for the 2016 and 2015 years of account, together with Mr Trevor Carvey, the Active Underwriter. Mr Robert Deutsch and Ms Belinda Taylor resigned their directorships on 1 September 2016. Other than directorship fees, salaries and other related remuneration and any potential future investment earnings or growth in capital value arising from shareholdings in the Lloyd's Corporate Member, no personal benefit is derived by the individuals concerned from these arrangements.

There are no other transactions or arrangements to be disclosed.

### 16. Post balance sheet events

The 2012 year of account was kept in run-off as at 31st December 2016 and not closed. A cash call of £6,000,000 was made on the 9th March 2017 with a due date of 16th June 2017.

The 2013 year of account was kept in run-off as at 31st December 2016 and not closed at 36 months. A cash call of £2,800,000 was made on the 9th March 2017 with a due date of 16th June 2017.

The 2014 year of account was placed in run-off as at 31st December 2016 and not closed at 36 months. A cash call of £5,500,000 was made on the 9th March 2017 with a due date of 16th June 2017.

Due to the level of losses already booked to the 2015 year of account it is proposed that an interim cash call of £1,000,000 be made on the 17th March 2017 with a due date of 16th June 2017.

### 17. Funds at Lloyd's

In case syndicate assets prove insufficient to meet members' underwriting liabilities, every member is required to hold additional capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL).

The level of FAL Lloyd's requires a member to maintain is determined by Lloyd's according to the nature and the amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. FAL is not hypothecated to any specific syndicate participation by a member. Therefore there are no specific funds available to a syndicate which can be precisely identified as its capital.

### 18. Risk management

*a) Governance framework*

HUL's Risk Governance framework follows a three lines of defence approach with the Internal Model and risk management at the centre of its business as usual activity. HUL's governance structure was designed to provide robust assurance to the Board and to support effective risk based capital management and decision making.

HUL's Board retains ownership of risk management policies, the ORSA process, the Internal Model and business planning processes and delegates operational responsibility for using the Internal Model to monitor the evolution of Syndicate 3334's risk profile to the first line committees. First line committees compare Key Risk Indicators against Board approved risk appetites and management tolerances, which enables the senior management to make effective decisions to ensure Syndicate 3334's strategic goals are achieved. Deviations from risk appetites and management tolerances are escalated to the Board. The Risk Management Function challenges HUL's first line of defence and provides assurance to the Board with regards the integrity of Internal Model and proportionality of control environment.

Risk profile monitoring informs the ORSA process, which in turn feeds the business planning and the strategy setting process.

*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 1 figures are no longer applicable from that date. Although the capital regime has changed, this does not significantly impact the Solvency Capital Requirement of the syndicate, since this has been previously calculated based on Solvency II principles.

## 18. Risk management *continued*

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

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 3334 is not disclosed in these financial statements.

*Lloyd's capital setting process*

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the 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 member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

*Provision of capital by members*

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

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position on page 16, represent resources available to meet members' and Lloyd's capital requirements.

*Capital resources*

HUL currently holds the ECA requirement as FAL. Currently there is no Group-wide strategy for the level of capital to be held and HUL's risk appetite is to hold ECA with no excess.

The syndicate is backed by two corporate members: SCI Capital Ltd and Hamilton Corporate Member Ltd (previously named SCI Capital Number 2 Ltd). SCI Capital Ltd supports the 2014 and prior years of account and is owned by Wild Goose Holdings Pty Ltd, the previous owners of the managing agency. Hamilton Corporate Member Ltd (HCM) was elected as a corporate member in late 2014 to support the 2015 and future years of account.

The Hamilton Insurance Group (HIG) wholly owns HCM. For the 2015 year of account, HCM was largely capitalised by funds from within HIG via a letter of credit on a quota share basis. For the 2016 year of account all funding comes from within HIG.

HIG has committed to support growth of the platform to reach a meaningful and relevant size. There is extensive surplus capital available with facilities in place to draw down further funds at short notice should there be an appropriate acquisition opportunity.

### 18. Risk management *continued*

#### *c) Insurance risk*

Insurance risk is the risk 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.

HUL has an insurance risk policy that sets out the approach to managing insurance risk. Compliance with the policy is monitored via defined management tolerances. Any deviations are highlighted to the Underwriting and Claims Committee. The policy is reviewed regularly as part of the overall documentation review process and for changes to the risk profile.

The risk exposure is further mitigated by diversification across a large 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 is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Syndicate's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance 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: accident and health, third-party liability, marine, fire and peril. Risks usually cover twelve months.

The most significant risks arise from climate changes, natural disasters and terrorist activities. For longer tail claims that take some years to settle, there is also inflation risk.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits.

## 18. Risk management *continued*

The Syndicate has also limited its exposure by imposing maximum claim amounts on certain contracts as well as the use of reinsurance arrangements in order to limit exposure to catastrophic events (e.g., hurricanes, earthquakes and flood damage).

As a guide to the level of catastrophe exposure the syndicate is exposed to, the table below shows our RDS scenarios that are in force from 2016:

| RDS (£) | In-Force RDS from 2016 | | |
|---|---|---|---|
| | Gross loss estimated | Net loss estimated | Final net loss estimated |
| Two Events North East Windstorm | 20,908,135 | 5,334,176 | 6,222,556 |
| Two Events Carolinas Windstorm | 7,758,911 | 4,867,525 | 4,622,316 |
| Florida Windstorm Miami-Dade | 17,474,729 | 5,885,945 | 6,546,350 |
| Florida Windstorm Pinellas | 12,995,779 | 4,850,746 | 5,388,646 |
| Gulf of Mexico Windstorm Onshore Offshore | 12,147,317 | 5,074,627 | 5,737,949 |
| European Windstorm Central Track | 14,341,707 | 4,451,254 | 5,255,974 |
| Japanese Typhoon Based on Isewan 1959 | 379,300 | 375,343 | 375,343 |
| California Earthquake Los Angeles | 23,607,152 | 8,985,372 | 9,538,775 |
| California Earthquake San Francisco | 15,678,803 | 5,074,627 | 5,960,051 |
| New Madrid Earthquake - RDS Event | 13,170,025 | 4,898,237 | 5,553,835 |
| Japanese Earthquake - Based on 1923 Great Kanto Earthquake | 6,511,004 | 3,367,640 | 3,646,776 |
| Canadian Earthquake British Columbia 100 Year Event | 919,202 | 487,964 | 556,043 |
| Canadian Earthquake British Columbia 250 Year Event | 1,031,886 | 600,647 | 666,638 |
| Canadian Earthquake British Columbia 500 Year Event | 1,378,704 | 947,465 | 1,004,177 |
| Canadian Earthquake Quebec 100 Year Event | 1,886,836 | 597,015 | 672,756 |
| Canadian Earthquake Quebec 250 Year Event | 3,150,984 | 1,343,284 | 1,491,528 |
| Canadian Earthquake Quebec 500 Year Event | 2,076,774 | 786,953 | 861,190 |
| AEP Loss 30 Year Return Period - US Windstorm (including Gulf of Mexico Windstorm) | 18,365,150 | 2,145,384 | 2,044,540 |
| Aggregate Exceedance Probability Loss 30 Year Return Period - USA and Canada Earthquake | 6,714,730 | 941,094 | 1,082,123 |
| Aggregate Exceedance Probability Loss 30 Year Return Period - Japan Windstorm | 1,239,400 | 309,850 | 299,762 |
| Aggregate Exceedance Probability Loss 30 Year Return Period - Japan Earthquake | 1,809,542 | 452,386 | 450,551 |
| Aggregate Exceedance Probability Loss 30 Year Return Period - EU Windstorm | 2,912,869 | 728,217 | 664,307 |

### 18. Risk management *continued*

Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Syndicate. The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities. However, 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. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin should decrease. However, due to the uncertainty inherent in the estimation process, the overall claim provision may not always be in surplus. The tables below summarise the development pattern of the open years of account and run-off years of account at a gross and net level:

**Gross insurance contract outstanding claims provision as at 31 December 2016:**

| | Gross | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| £'000 | Underwriting pure year | At end of underwriting year | One year later | Two years later | Three years later | Four years later | Five year later | Less: cumulative payments | Outstanding reserves |
| | 2010 & prior | | | | | | | | **5,907** |
| | 2011 | **4,622** | **23,169** | **28,538** | **30,037** | **32,917** | **34,623** | **30,060** | **4,564** |
| | 2012 | **12,270** | **18,577** | **38,702** | **38,883** | **44,274** | | **36,900** | **7,373** |
| | 2013 | **18,564** | **36,312** | **40,157** | **47,592** | | | **34,711** | **12,881** |
| | 2014 | **18,901** | **34,764** | **43,462** | | | | **28,655** | **14,807** |
| | 2015 | **1,256** | **2,371** | | | | | **837** | **1,535** |
| | 2016 | **16,598** | | | | | | **1,528** | **15,070** |
| | ALL YOAs | | | | | | | | **62,137** |

**Net insurance contract outstanding claims provision as at 31 December 2016:**

| | Net | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| £'000 | Underwriting pure year | At end of underwriting year | One year later | Two years later | Three years later | Four years later | Five years later | Less: cumulative payments | Outstanding reserves |
| | 2010 & prior | | | | | | | | **4,631** |
| | 2011 | **4,622** | **23,169** | **28,538** | **303,067** | **32,917** | **33,428** | **29,007** | **4,421** |
| | 2012 | **12,270** | **18,388** | **37,971** | **36,705** | **39,874** | | **33,302** | **6,572** |
| | 2013 | **17,254** | **34,390** | **38,210** | **40,785** | | | **32,687** | **8,098** |
| | 2014 | **15,688** | **31,086** | **37,887** | | | | **24,153** | **13,735** |
| | 2015 | **1,256** | **2,229** | | | | | **837** | **1,393** |
| | 2016 | **12,826** | | | | | | **922** | **11,904** |
| | ALL YOAs | | | | | | | | **50,754** |

The sensitivity of the loss reserves has been tested by applying a 10% adverse movement in net ultimate loss ratios to the earned premiums booked to the 2016 year of account. This would result in an increase in net technical provisions of £0.9m. For all other years which are either fully earned or close to being earned an uplift of 10% in booked reserves would increase net technical provisions by £3.9m giving a net increase of £4.8m across all years of account (2015: net increase of £3.4m when applying a 10% uplift to total net technical provisions).

# Notes to the Accounts *continued*

## 18. Risk management continued

### *d) Financial risk*

*1) Credit risk*

Credit risk is the risk that one party to a financial obligation will cause a financial loss to the other party by failing to meet its obligation. HUL aims to mitigate credit risk in the following ways:

- A credit risk policy exists that sets out the approach to managing credit risk. Compliance with the policy is monitored via defined management tolerances. Any deviations are highlighted to the Finance and Operations Committee.
- The policy is reviewed regularly as part of the overall documentation review process and for changes to the risk profile.
- Dealing with counterparties with strong credit ratings along with appropriate due diligence as per HUL's compliance procedures.

The following tables provide information relating to the credit risk exposure of the syndicate at 31 December 2016. The assets are classified according to Standard & Poor's credit ratings of counterparties. The current credit risk ratings and those for the prior year are included as a comparative, where appropriate.

**Credit risk exposure £'000**

| Credit Risk Ratings - As at December 2016 | AAA | AA | A | BBB | BBB or less | Not rated | Total |
|---|---|---|---|---|---|---|---|
| Shares and other variable yield securities and unit trusts | - | 4,264 | 2,020 | - | - | - | 6,283 |
| Overseas deposits as investments | 7,561 | 2,612 | 1,150 | 420 | - | 59 | 11,802 |
| Reinsurer' share of claims outstanding | - | 41 | 11,342 | - | - | - | 11,383 |
| Reinsurer debtors | - | 40 | 713 | - | - | - | 752 |
| Cash at bank and in hand | - | - | 10,671 | - | - | - | 10,671 |
| Insurance Debtors | - | - | - | - | - | 32,541 | 32,541 |
| Total credit risk | 7,561 | 6,957 | 25,896 | 420 | - | 32,600 | 73,432 |

| Credit Risk Ratings - As at December 2015 | AAA | AA | A | BBB | BBB or less | Not rated | Total |
|---|---|---|---|---|---|---|---|
| Shares and other variable yield securities and unit trusts | - | - | 4,242 | - | - | - | 4,242 |
| Overseas deposits as investments | - | - | - | - | - | 9,526 | 9,526 |
| Reinsurer' share of claims outstanding | - | - | - | - | - | 3,855 | 3,855 |
| Reinsurer debtors | - | - | - | - | - | 1,255 | 1,255 |
| Cash at bank and in hand | - | - | 921 | - | - | - | 921 |
| Insurance Debtors | - | - | - | - | - | 11,959 | 11,959 |
| Total credit risk | - | - | 5,162 | - | - | 26,595 | 31,757 |

# Notes to the Accounts *continued*

## 18. Risk management *continued*

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

### Credit risk aging and impairment £'000

| GBP - as at December 2016 | Neither due nor impaired | Up to three months | Three to six months | Six months to one year | Greater than one year | Financial assets that have been impaired | Total |
|---|---|---|---|---|---|---|---|
| Shares and other variable yield securities and unit trusts | 6,283 | - | - | - | | | 6,283 |
| Overseas deposits as investments | 11,802 | - | - | - | | | 11,802 |
| Reinsurer' share of claims outstanding | 11,383 | - | - | - | | | 11,383 |
| Reinsurer debtors | 753.28 | - | - | - | | | 753 |
| Cash at bank and in hand | 10,671 | - | - | - | | | 10,671 |
| Insurance debtors | 27,772 | 3,086 | 1,244 | 439 | | | 32,541 |
| Other debtors | 18,996 | - | - | - | | | 18,996 |
| Total credit risk | 87,660 | 3,086 | 1,244 | 439 | - | - | 92,429 |

| GBP - as at December 2015 | Neither due nor impaired | Up to three months | Three to six months | Six months to one year | Greater than one year | Financial assets that have been impaired | Total |
|---|---|---|---|---|---|---|---|
| Shares and other variable yield securities and unit trusts | 4,242 | - | - | - | | | 4,242 |
| Overseas deposits as investments | 9,526 | - | - | - | | | 9,526 |
| Reinsurer' share of claims outstanding | 3,855 | - | - | - | | | 3,855 |
| Reinsurer debtors | 1,255.00 | - | - | - | | | 1,255 |
| Cash at bank and in hand | 921 | - | - | - | | | 921 |
| Insurance debtors | 8,504 | 1,770 | 267 | 570 | 848 | | 11,959 |
| Other debtors | 5,481 | - | - | - | | | 5,481 |
| Total credit risk | 33,784 | 1,770 | 267 | 570 | 848 | - | 37,239 |

# Notes to the Accounts *continued*

## 18. Risk management *continued*

### 2) *Liquidity Risk*

Liquidity risk is the risk that the Syndicate will be unable to meet its financial obligations. In paying claims, there is a liquidity risk associated with timing differences between gross cash out-flows and expected reinsurance recoveries. HUL aims to mitigate liquidity risk in the following ways:

- A liquidity risk policy exists that sets out the approach to managing liquidity risk. Compliance with the policy is monitored via defined management tolerances. Any deviations are highlighted to the Finance and Operations Committee.
- The policy is reviewed regularly as part of the overall documentation review process and for changes to the risk profile.
- An overdraft facility has been set-up and is utilised to close any short-term funding gaps.

Due to all funds under the control of the managing agency being held in instant access cash and cash equivalent accounts there are no stated maturity profiles. The maturity profiles of claims outstandings are below:

| Liquidity risk - Maturity profiles - As at December 2016 | No stated maturity | 0-1 Year | 1-3 Years | 3-5 Years | >5 Years | Total |
|---|---|---|---|---|---|---|
| | | | | | | |
| Claims outstanding | | 30,466 | 25,321 | 5,489 | 862 | 62,137 |
| Creditors | 20,697 | | | | | 20,697 |
| | | | | | | |
| Total credit risk | 20,697 | 30,466 | 25,321 | 5,489 | 862 | 82,833 |

## 18. Risk management *continued*

### *3) Market Risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk is made up of three types of risk:

a) Currency risk;

b) Interest rate risk; and

c) Equity price risk

HUL does not hold any assets that would be subject to interest rate or equity price risk.

HUL aims to mitigate market risk in the following ways:

A market risk policy exists that sets out the approach to managing market risk. Compliance with the policy is monitored via defined management tolerances. Any deviations are highlighted to the Finance and Operations Committee. The policy is reviewed regularly as part of the overall documentation review process and for changes to the risk profile.

*Currency Risk*

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. HUL's functional currency is Sterling and its exposure to foreign exchange risk arises from transactions and assets held in non-sterling currencies. Primarily these are the US, Canadian and Australian Dollars, Euro and Japanese Yen. The following tables show the exposure of the financial assets and liabilities to foreign exchange risk for the various reporting years along with prior years for comparison.

## Notes to the Accounts *continued*

### 18. Risk management *continued*

**Currency analysis (currency totals are converted to £'000)**

| At December 2016 - Currency Code | GBP | USD | EUR | CAD | AUD | JPY | OTH | Total |
|---|---|---|---|---|---|---|---|---|
| Financial investments | - | 2,208 | - | 4,075 | - | - | - | 6,283 |
| Overseas deposits | 159 | 187 | - | 607 | 10,849 | - | - | 11,802 |
| Reinsurer's share of technical provisions | 8,982 | 5,530 | 528 | 2,379 | 966 | - | - | 18,385 |
| Insurance and reinsurance receivables | 9,897 | 19,514 | 2,630 | 602 | 2,635 | - | - | 35,279 |
| Cash and cash equivalents | 764 | 7,869 | 1,178 | 3 | 858 | - | - | 10,671 |
| Other assets | 3,892 | 4,658 | 493 | 280 | 685 | - | - | 10,008 |
| Total Assets | 23,693 | 39,967 | 4,829 | 7,947 | 15,993 | - | - | 92,428 |
| Technical Provisions | (34,415) | (35,883) | (11,228) | (4,802) | (16,252) | - | - | (102,580) |
| Insurance and reinsurance payables | (4,741) | (6,237) | (311) | (869) | (2,333) | - | - | (14,491) |
| Other creditors | (349) | 109 | 172 | 0 | (6,518) | - | - | (6,586) |
| Total Liabilities | (39,505) | (42,011) | (11,367) | (5,671) | (25,102) | - | - | (123,656) |

| At December 2015 - Currency Code | GBP | USD | EUR | CAD | AUD | JPY | OTH | Total |
|---|---|---|---|---|---|---|---|---|
| Financial investments | - | 58 | - | 4,184 | - | - | - | 4,242 |
| Reinsurer's share of technical provisions | 3,559 | 46 | - | 508 | 672 | - | 4 | 4,789 |
| Insurance and reinsurance receivables | 6,853 | 366 | 1,571 | 202 | 2,795 | 275 | 1,153 | 13,214 |
| Cash and cash equivalents | 512 | 389 | 464 | 623 | 8,458 | - | - | 10,447 |
| Other assets | 2,744 | 30 | 319 | 195 | 1,187 | 34 | 38 | 4,547 |
| Total Assets | 13,668 | 889 | 2,354 | 5,711 | 13,113 | 309 | 1,195 | 37,239 |
| Technical Provisions | - 18,947 | - 735 | - 4,079 | - 2,672 | - 18,765 | - 202 | - 712 | - 46,112 |
| Insurance and reinsurance payables | - 1,599 | 270 | - 372 | - 72 | - 3,842 | - 202 | - 81 | - 5,897 |
| Other creditors | - 3,095 | - 2 | 26 | - 10 | - 2,057 | - | - | - 5,139 |
| Total Liabilities | (23,641) | (467) | (4,426) | (2,754) | (24,665) | (404) | (792) | (57,149) |

*Interest Rate Risk:* The syndicate does not hold any investment assets that would be subject to interest rate risk.

*Equity Price Risk:* The syndicate does not hold any investment assets that would be subject to equity price risk.