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ICAT Syndicate 4242

Financial Statements

For the 36 Months ended 31 December 2016

2014 Closing Year Report and Accounts

Contents

Directors and Administration

Managing Agent

Asta Managing Agency Ltd

Directors

T A Riddell (Chairman)*
C V Barley
L Harfitt
A J Hubbard*
D J G Hunt
M D Mohn*
D F C Murphy*
S P A Norton
J W Ramage*
K Shah*
J M Tighe

Non-Executive Directors *

Company Secretary

C Chow

Managing Agent's Registered Office

5th Floor
Camomile Court
23 Camomile Street
London EC3A 7LL

Managing Agent's Registered Number

1918744

Active Underwriter

M H McConnell (appointed 1 January 2014)

Primary Coverholder

International Catastrophe Insurance Managers LLC (ICAT)

Claims Administrator

Boulder Claims LLC

Investment Manager

New England Asset Management

Bankers

Citibank NA
Barclays Bank Plc
Lloyds Bank
The Bank of New York Mellon Corporation

Registered Auditors

KPMG LLP

Signing Actuary

N Sharif, KPMG LLP

Managing Agent's report for the 2014 Closing Year of Account

For the 36 months ended 31 December 2016

The directors of the Managing Agent (the directors) present their report below, together with audited 2014 underwriting year accounts for Syndicate 4242 (the Syndicate) on pages 12 to 30.

The directors prepared this report in accordance with Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) using the underwriting year basis of accounting required by Statutory Instruments No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Underwriting year results

The Syndicate generated profits of $31.0 million after standard personal expenses on gross written premiums of $135.3 million for the 2014 underwriting year resulting in a 31.2% return on insurance capacity.

Principal activities

The Syndicate transacts general insurance and reinsurance business in the United Kingdom (U.K.) within the Lloyd's market. The Syndicate specialises in underwriting property insurance policies covering small and middle market businesses located in areas of the United States (U.S.) that are prone to hurricanes and earthquakes. Hurricane policies include coverage for tropical storms and also provide attritional protection against tornados, hail, and other windstorm risks. The Syndicate also offers incidental general liability and limited flood coverage when purchased alongside hurricane or earthquake coverage and All Other Peril (AOP) coverage. AOP coverage provides protection against fires, theft, vandalism, water damage, and other covered property perils. The Syndicate also provides reinsurance to U.S. insurance companies covering personal lines property risks against named hurricanes in Hawaii and earthquakes in California and Hawaii.

The Syndicate contracts with certain wholly owned subsidiaries of Paraline Group, Ltd, a Bermuda based insurance organisation, for certain insurance services; these subsidiaries include International Catastrophe Insurance Managers, LLC (ICAT Managers), Boulder Claims, LLC (Boulder Claims), and Paraline International, Ltd (Paraline International). ICAT Managers and Boulder Claims are Delaware companies, while Paraline International is a Bermuda company.

ICAT Managers underwrites most of the Syndicate's insurance business as its primary coverholder. ICAT Managers writes business for the Syndicate through its network of relationships with surplus lines wholesale brokers and licensed retail agents. Although the Syndicate delegates day-to-day underwriting and related operational management responsibility to ICAT Managers, the directors regularly review the results of the coverholder's monitoring procedures and supplement these procedures with Managing Agent and third party audits. Paraline International also provides underwriting oversight for the Syndicate.

Boulder Claims provides claims administration services to the Syndicate. The Managing Agent contracts with a third party to coordinate oversight of Boulder Claims.

The insurance services that ICAT Managers and Boulder Claims (collectively, ICAT) provide to the Syndicate account for 55.6% of their total business. ICAT also provides services to other syndicates and insurance carriers and claims services to a state sponsored risk pool. ICAT's main office is in Broomfield, Colorado.

The Syndicate also contracts with other parties to underwrite insurance business subject to oversight by ICAT.

2014 underwriting year business review

Business summary

The Syndicate entered into a binding authority with ICAT to underwrite insurance business for the 2014 underwriting year. ICAT wrote this business in the underwriting regions of the U.S. below:

i. Eastern Seaboard

ii. Florida

iii. Gulf Coast

iv. Hawaii

v. Earthquake (California, Pacific Northwest, New Madrid, Intermountain West, Alaska, Hawaii, Mississippi, New Jersey, South Carolina, Massachusetts, and Maryland)

ICAT further divided its commercial underwriting operations into two business units: the Platform Business Unit (PBU) and the Middle Market Business Unit (MMBU).

i. The PBU provides coverage to small businesses that the traditional insurance industry may overlook having properties with insured values of generally $5.0 million or less with an average value of $1.7 million and an average premium of $5,139. Small business policies account for 49.5% of the Syndicate's total business.

ii. The MMBU provides coverage to middle market businesses on the lower end of the market that require customised and layered insurance solutions. Middle market properties have insured values of more than $5.0 million, but typically less than $35.0 million, with an average value of $18.8 million and an average premium of $17,278. Middle market policies account for 42.4% of the Syndicate's total business.

The Syndicate also provided proportional reinsurance to a U.S. insurance company (the Ceding Company) covering Hawaii personal lines risks (homeowners, renters, and condominium unit owners) against named hurricanes for the 2014 underwriting year. ICAT underwrote this coverage under a program manager agreement with the Ceding Company. These California and Hawaii reinsurance arrangements include commissions of 26.0% to 37.5% on inward reinsurance premiums. This reinsurance acceptance accounted for 6.9% of the Syndicate's total business for the 2014 underwriting year.

The Syndicate also has separate binding authority agreements with a third party coverholders to underwrite a small amount of policies covering homes in the Northeast U.S and earthquake policies in the Western U.S. These policies account for the rest of the Syndicate's total business. ICAT controls and monitors this business on behalf of the Syndicate.

Managing Agent's report for the 2014 Closing Year of Account continued

Key financial performance indicators

In the opinion of the directors, the key financial performance indicators below best represent the performance and position of the Syndicate for the underwriting year.

	2014 Underwriting Year $000
Gross written premiums:	
Easter Seaboard	24,589
Florida	44,940
Gulf Coast	28,783
Hawaii (includes direct and inward reinsurance premiums)	6,240
Earthquake	30,771
Total gross written premiums	135,323
Outward reinsurance premiums	(44,185)
Profit for the closed year of account	30,970
Members' balances	2,358
Loss ratio	13.3%
Combined ratio (financial basis)	66.0%

Though the 2014 Pacific hurricane season was the most active season on record since 1992, the Syndicate did not suffer significant catastrophe losses. The 2014 Atlantic hurricane season by comparison was a below-average season, producing the fewest storms since the 1997 season with only one making U.S. landfall. Tropical Storm Iselle was the strongest tropical cyclone on record to strike the Big Island of Hawaii and Hurricane Arthur also hit North Carolina, but the Syndicate did not incur significant losses from these storms because it did not have a high concentration of exposure in these areas.

Reinsurance costs increased because of an expanded placement of catastrophe coverage and more AOP reinsurance in 2014. The Syndicate added two new AOP reinsurance programs: Homeowners and General Liability and added a new per occurrence program as part of its Core Excess Per Risk contract which offers $3.0 million of coverage excess of $1.0 million in retention for losses associated with non-named windstorms. The Syndicate's growth in AOP ceded premium correlates with a growth in gross written premiums in order to retain net loss exposure within the Syndicate's risk appetite.

Despite the significant increase in purchased catastrophe coverage ($300.0 million limit from $240.0 million), catastrophe ceded premiums increased by only $1.0 million from 2013 to 2014. The Syndicate achieved substantial rate reduction as a result of the soft reinsurance market and increased protection from non-traditional reinsurers.

This table summarises the surpluses (deficits) from earlier underwriting years reinsured by the 2014 underwriting year by pure underwriting year.

	Pure Underwriting Years					
	2013 $000	2012 $000	2011 $000	2010 $000	2009 $000	2008 $000
Surplus (deficit)	1,350	285	(41)	(4)	(1)	-

The positive development for 2012 and 2013 underwriting years is due to decreases in claim reserves for those years.

Non-financial key performance indicators

	2014 Underwriting Year
Adherence to underwriting authority limits	100.0%

The Managing Agent contracted with ICAT to perform a majority of the Syndicate's activities. The Managing Agent's staff, reviewed and monitored the activities of ICAT and provided actuarial (both reserving and capital modelling), regulatory compliance, and risk management services to the Syndicate. The Managing Agent is responsible for the environmental activities of the Syndicate, though by their nature, insurers generally do not produce significant environmental emissions. Therefore, the directors do not consider it appropriate to monitor and report any performance indicators for environmental matters.

Outward reinsurance arrangements

Catastrophe Coverage – The Syndicate has catastrophe reinsurance to protect against the adverse accumulation of losses from multiple policies as a result of large catastrophic events, each with losses in excess of $30.0 million up to $300.0 million ($450.0 million in the aggregate). The Syndicate also has additional inuring reinsurance protection for Louisiana policies (the Louisiana Carve-out) covering catastrophic events, each with losses in excess of $5.0 million up to $50.0 million for each event and in the aggregate.

The Syndicate has aggregate catastrophe reinsurance to protect against an accumulation of losses in excess of $50.0 million from multiple catastrophic events, with losses up to $30.0 million from each event contributing to the retention, subject to a $1.5 million deductible for each event. Combined reinsurance recoveries under this coverage and a portion of the larger catastrophic event coverage (collectively, the Shared Limit Coverage) are limited to $60.0 million.

If the Syndicate exhausts any of its catastrophe reinsurance as a result of one catastrophic event, a portion of the coverage is automatically reinstated for additional premiums to protect against more catastrophic events during the rest of the coverage term, subject to certain aggregate limits.

Before 1 April, 2014, the Syndicate had layered catastrophe reinsurance to protect against large catastrophic events, each with losses in excess of $30.0 million up to $240.0 million ($403.0 million in the aggregate), with a majority of the coverage subject to automatic reinstatement.

The reinsurers base their catastrophe reinsurance coverage pricing on the actual amount of gross catastrophe insurance business written by the Syndicate (with the exception of the flat premiums for the Shared Limit Coverage).

Attritional Catastrophe Coverage – Beginning 1 January, 2014, the Syndicate has attritional catastrophe reinsurance to protect against tornadoes, hail, and other windstorm risks, each with losses in excess of $1.0 million up to $4.0 million with no reinstatement.

Managing Agent's report for the 2014 Closing Year of Account continued

All Other Peril Coverage – The Syndicate has reinsurance to protect against the occurrence of other events such as large fires. The Syndicate reinsures losses excluding flood, earthquake, windstorm or hail in excess of $1.0 million ($250,000 for residential property beginning 1 January, 2014) each building up to $15.0 million. For multiple sinkhole collapse and terrorism events, total coverage is limited to $27.0 million.

The Syndicate also purchases facultative reinsurance for larger risks.

General Liability Coverage – Beginning 1 January, 2014, the Syndicate cedes 80% of its general liability related written premiums (up to $3.0 million a year) and corresponding liabilities (up to 400% of premiums ceded) to certain reinsurers under a proportional reinsurance arrangement. This coverage provides for a sliding scale ceding commission of 20% to 30% of the outward reinsurance premiums based on the resulting loss ratio of the reinsured business.

Investments

The Syndicate's investment strategy sought to preserve capital and maintain enough liquidity to support the underwriting activities of the 2014 underwriting year's business. The Managing Agent delegated the management of funds under its control in the U.S. situs trust funds to an external fund manager, New England Asset Management (NEAM). The Managing Agent, in consultation with ICAT, established investment guidelines for the fund manager to follow. Under these guidelines, the fund manager maintained an investment portfolio, which focused on credit quality in the selection of investments and avoided complex instruments and investments correlated to the Syndicate's loss exposures in areas prone to hurricanes and tropical storms.

The directors evaluated the fund manager's performance against the Bank of America Merrill Lynch 0-1 year U.S. Treasury Notes and Bonds benchmark. U.S. trust funds include the U.S. situs trust funds and the Lloyd's Dollar Trust Fund (the Syndicate's main operating account) under the Managing Agent's control. U.S. trust funds also include the Lloyd's Joint Asset Trust Funds (JATF), which provide further support in addition to the U.S. situs funds. Citibank NA is the custodian of the U.S. situs trust funds, the Lloyd's Dollar Trust Fund, and the JATF. The U.S. situs trust funds and JATF protect the Syndicate's policyholders as required by U.S. regulators and are unavailable for use in the Syndicate's operations.

Foreign exchange

Foreign exchange was not significant to the Syndicate, since the Syndicate transacted its underwriting business in U.S. Dollars.

Managing Agent's report for the 2014 Closing Year of Account continued

Directors

Details of the Directors of the Managing Agent that were serving at the year end and up to the date of signing of the financial statements are provided on page 1. Changes to directors during the year were as follows:-

C V Barley	Appointed 27 April 2016
M D Mohn	Appointed 16 May 2016
K Shah	Appointed 1 October 2016
Y A Lancaster (nee Bouman)	Resigned 12 February 2016
G M J Erulin	Resigned 31 March 2016

The directors of Asta did not participate on the Syndicate and did not have an interest in any of its contracts.

Disclosure of information to the auditors

Each of the directors who held office at the approval date of this report confirms to the best of their knowledge, that there is no relevant audit information of which the Syndicate's auditors are unaware, and each Director took all action necessary as a Director to become aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

On behalf of the Board

C Chow
Company Secretary
22 March 2017

Statement of Managing Agent's responsibilities

The Managing Agent must prepare underwriting year accounts for the members of Syndicate 4242 (the Syndicate) in accordance with Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005).

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare underwriting year accounts for the Syndicate for each underwriting year closed by reinsurance to close at 31 December to give a true and fair view of the closed year's result.

In preparing underwriting year accounts for the Syndicate, the Managing Agent must:

- select suitable accounting policies and apply them consistently throughout each underwriting year and from one underwriting year to the next, subject to changes from newly adopted accounting standards. Where items affect more than one underwriting year, the Managing Agent must ensure that the Syndicate treats the affected member equitably. In particular, the premium charged for reinsurance to close should be equitable between the reinsured and reinsuring members of the Syndicate;

- account for all income and charges for the closed underwriting year regardless of the date received or paid;

- make reasonable and prudent judgments and accounting estimates; and

- state whether they followed applicable accounting standards, subject to any material departures disclosed and explained in the notes to the underwriting year accounts.

The Managing Agent must keep adequate accounting records that disclose with reasonable accuracy at any time the financial condition of the Syndicate and enable the Managing Agent to ensure that the Syndicate's underwriting year accounts comply with the 2008 regulations. The Managing Agent must also safeguard the assets of the Syndicate by taking reasonable steps to prevent and detect 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 U.K. governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the Members of Syndicate 4242

2014 Closed Year of Account

We have audited the Syndicate underwriting year accounts for the 2014 year of account of Syndicate 4242 for the three years ended 31 December 2016, as set out on pages 12 to 30. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, as modified by the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) and the Lloyd's Syndicate Accounting Byelaw.

This report is made solely to the members of the Syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate and 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 9, the Managing Agent is responsible for the preparation of the syndicate's underwriting year accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Syndicate underwriting year 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 underwriting year accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatements, 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 underwriting year accounts. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or consistencies we consider the implications for our report.

We have audited the Syndicate underwriting accounts, which comprise of the statement of comprehensive income, the balance sheet as at 31 December 2016, the cash flow statement, the statement of changes in members' balances, and the related notes.

Independent auditor's report to the Members of Syndicate 4242 continued

The underwriting year accounts relate to the 2014 year of account which has been closed by reinsurance to close at 31 December 2016. As a consequence of this, the residual risks to the members on the closed year have been minimised. Management have deemed the following risk disclosure requirements of FRS 102 to be not applicable to these underwriting accounts:

- Insurance risk
- Financial risk
- Credit risk
- Liquidity risk
- Market risk
- Capital management

Opinion on Syndicate underwriting year accounts

In our opinion the Syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2014 closed year of account;
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw.

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:

- adequate accounting records have not been kept; or
- the Syndicate underwriting year accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Timothy Butchart (Senior Statutory Auditor)
for and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London E14 5GL

22 March 2017

Income statement

Technical account – general business

For the 36 months ended 31 December 2016

	Notes	$'000
Earned premiums, net of reinsurance		
Gross premiums written	4	135,323
Outward reinsurance premiums		(44,185)
Earned premiums, net of reinsurance		91,138
Reinsurance to close premiums received, net of reinsurance		2,352
Allocated investment return transferred from the non-technical account	5	40
Claims incurred, net of reinsurance		
Claims paid:		
Gross amount		(13,545)
Reinsurers' share		978
Claims paid		(12,567)
Reinsurance to close premium payable net of reinsurance	13	(1,922)
Claims incurred, net of reinsurance		(14,489)
Net operating expenses	6	(48,041)
Balance on the technical account – general business	12	**31,000**

The underwriting year closed and therefore all items relate to discontinued operations.

The notes on pages 17 to 30 form part of these financial statements.

Income statement continued

Non technical account – general business

For the 36 months ended 31 December 2016

	Notes	$'000
Balance on the technical account – general business		**31,000**
Income from investments		128
Gains on investments		15
Losses on investments		(18)
Investment expenses and charges		(85)
Investment return	5	40
Allocated investment return transferred to general business technical account		(40)
Exchange gains and losses		(30)
Profit for the closed year of account		**30,970**

The underwriting year closed and therefore all items relate to discontinued operations.

Syndicate 4242 had no recognised gains and losses for the 2014 underwriting year other than those included in the Profit and Loss Account. Therefore, the directors of the Managing Agent have not presented a separate Statement of Total Recognised Gains and Losses for the 2014 underwriting year.

The notes on pages 17 to 30 form part of these underwriting year accounts.

Statement of financial position

As at 31 December 2016

	Note	$'000
ASSETS		
Investments		
Other financial investments	8	4,537
Debtors		
Other debtors		148
Reinsurance recoveries anticipated on gross reinsurance premiums payable to close the account	13	401
Other assets	11	130
Prepayments and accrued income		17
Total assets		5,233
LIABILITIES		
Amounts due to members		2,358
Reinsurance to close premiums payable to close the Account – gross amount	13	2,323
Creditors		
Creditors arising out of reinsurance operations		48
Other creditors	14	503
		551
Accruals and deferred income		1
TOTAL LIABILITIES		**5,233**

The notes on pages 17 to 30 form part of these financial statements.

The board of Asta Managing Agency Ltd approved Syndicate 4242's underwriting year accounts on pages 12 to 30 on 15 March 2017, which the Director below signed on the board's behalf.

D J G Hunt
Director
22 March 2017

Statement of members' balances

For the 36 months ended 31 December 2016

	$'000
Profit for the closed year of account	30,970
Members' agents' fees	(150)
U.S. federal income tax payments made on account of members	(929)
Other amounts due to members	67
Early payments of profit to members' personal reserve fund	(27,600)
Amounts due to members at 31 December 2016	**2,358**

The notes on pages 17 to 30 form part of these underwriting year accounts.

Statement of cash flows

For the 36 months ended 31 December 2016

	Notes	$'000
Cash flows from operating activities		
Profit for the year of account		30,970
Increase in debtors		(152)
Decrease in creditors		(110)
Non cash consideration for net RITC received	9	(3,897)
RITC premium payable, net of reinsurance		1,922
		28,733
Cash flows from investing activities		9
Cash flows from financing activities		
Member's agents fees		(150)
U.S. federal income tax and other balances		(862)
Early payment of profit to members' personal reserve fund		(27,600)
		(28,612)
Net increase in cash and cash equivalents		130
Cash and cash equivalent at 1 January 2014		-
Cash and cash equivalent at end of the year of account	11	**130**

The notes on pages 17 to 30 form part of these underwriting year accounts.

Notes to the underwriting year accounts

For the 36 months ended 31 December 2016

1. Basis of preparation

The directors of the Managing Agent (the directors) prepared these 2014 underwriting year accounts for Syndicate 4242 (the Syndicate) in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, Lloyd's Syndicate Accounting Byelaw (No. 8 of 2005) and accounting standards in the United Kingdom (U.K.) applicable to the Syndicate as if it were an insurance company formed and registered under the Companies Act 2006. These underwriting year accounts also comply with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005 and amended in December 2006.

Members participate in the Syndicate on an underwriting year basis under agency agreements with the Managing Agent; each underwriting year is a separate annual venture. Agency agreements grant underwriting control to the Managing Agent; members have no access to funds controlled by the Syndicate. The Managing Agent normally keeps each underwriting year open for three calendar years before determining the result for the year and potentially releasing funds to the members of the year. The Managing Agent assesses the result and net assets for each underwriting year based on the insurance policies incepting in that year for the membership of that year. The directors may also release funds early on open underwriting years if they can determine the ultimate profitability of the year with enough accuracy (generally at the end of two calendar years).

The directors prepared these accounts for the 2014 underwriting year, which closed on 31 December 2016 by payment of a reinsurance to close (RITC) premium to the 2015 underwriting year, on an underwriting year basis. Therefore, the profit and loss account reflects transactions on the 2014 underwriting year over the last three years. The balance sheet shows the ending assets and liabilities of the 2014 underwriting year at the closure of the year.

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.

The Syndicate has elected to early-apply the March 2016 amendments to FRS 102, *Fair value hierarchy disclosures*. As a result, the fair value hierarchy disclosures, including comparatives, shown in Note 8 are now prepared on a basis consistent with the measurement of the financial instruments.

2. Managing agent

The Managing Agent for the Syndicate is Asta Managing Agency Ltd (Asta).

3. Accounting policies

The directors consistently applied the material accounting policies below in preparing these underwriting year accounts.

Accounting policies continued

(a) *Gross premiums*

Gross premiums consist of premiums on insurance contracts bound during the underwriting year. Gross premiums also include inward reinsurance premiums from ceding insurance companies on the underlying policies bound during the underwriting year, an inward portfolio transfer from the last underwriting year and an outward portfolio transfer to the next underwriting year. The Syndicate shows premiums gross of coverholder commissions and excludes taxes and fees levied on them.

(b) *Outward reinsurance premiums*

Outward reinsurance premiums include premiums on outward reinsurance contracts that reduce the underwriting year's exposure to losses from catastrophes and all other property perils. The directors allocate catastrophe reinsurance premiums to underwriting years based on each year's contribution to the weighted average modelled losses of the reinsurance contracts. The directors charge the costs of reinsurance for all other property perils to underwriting years based on when the reinsured policies incept. Reinsurance transactions do not relieve the Syndicate of its primary obligations to its policyholders.

(c) *Claims paid, net of reinsurance recoveries*

Gross claims paid include the settlement costs of claims against insurance contracts bound during the underwriting year and related claims handling expenses. The directors allocate catastrophe reinsurance recoveries to underwriting years based on each year's share of the underlying losses from the affected insurance contracts triggering the recoveries. The directors credit recoveries against all other property perils to underwriting years based on when the reinsured policies incept.

(d) *RITC premium payable*

The directors determine RITC premiums based on the cost of settling all notified but not settled claims outstanding at the closure of the underwriting year. RITC premiums also include a provision for the estimated cost of claims incurred but not reported (IBNR) at the closure of the underwriting year based on statistical methods and includes adjustments for catastrophes and other significant events, changes in historical trends, economic and social conditions, judicial decisions, and legislation, as necessary. In evaluating the provision, the directors used the findings of the Syndicate's actuaries, which included an associated third party claims administrator's loss estimates for large catastrophes.

The claims administrator, together with loss modelling staff, base the selected estimate of losses for each large catastrophe after considering the range of ultimate loss estimates using various methods. Such methods include expected claim count and average cost per claim, incurred loss development, stochastic event scenario modelling from different software vendors, market share analysis, and other information, including independent third party evaluations. For smaller catastrophes and all other property perils, the Syndicate's actuaries apply Initial Expected Loss Ratios (IELRs) for each class of business, which is segmented by homogeneous regions and/or policy types. The Syndicate's actuaries develop these IELRs against catastrophe models, market data, and past claims on similar classes of business.

Accounting policies continued

(d) *RITC premium payable continued*

The provision for claims outstanding is subject to significant variability. While the directors believe that the determined provision for gross claims and reinsurance recoveries is adequate, establishing this liability is a judgmental and inherently uncertain process. Therefore, it is possible that actual losses may not conform to the assumptions that the directors used in determining the amount of this provision. Accordingly, the ultimate provision may be significantly greater or less than the amount RITC premiums determined at the closure of the underwriting year. The nature, however, of short tail claims, such as the property insurance that the Syndicate underwrites, where policyholders typically notify the Syndicate of their claims within an average of 28 days and the Syndicate typically settles these claims within a short time period is normally less uncertain after a few years than long tail risks, such as some liability lines of business, where it may be several years before policyholders advise their insurance carriers of their claims and the carriers settle them.

The directors based the reinsurers' share of the provision for claims outstanding on the provisions for reported claims and IBNR, net of estimated irrecoverable amounts from potential reinsurer insolvencies based on the type of balance and security ratings of the involved reinsurers. The directors used statistical methods to help them make these estimates.

(e) *Investments*

Investments consist of shares and other variable yield securities and debt and other fixed income securities. The Syndicate carries investments at current or market value.

(f) *Fair value measurements of financial assets and liabilities*

The Syndicate follows the recognition and measurement requirements of FRS 102 section 11 *Basic Financial Instruments* and section 12 *Other Financial Instruments*. All of the Syndicate's financial assets and liabilities are basic financial instruments.

The Syndicate measures its investments at fair value through profit or loss using valuation techniques that maximise the use of observable market data and minimise the use of unobservable market data. The Syndicate determines fair value based on assumptions that market participants would use in pricing an investment in the principal or most advantageous market. When considering market participant assumptions in its fair value measurements, the Syndicate uses the fair value hierarchy below to classify its investments.

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Accounting policies continued

(g) *Fair value measurements of financial assets and liabilities continued*

Where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the Syndicate bases the entire fair value measurement on the lowest level input that is significant to the entire measurement. The Syndicate recognises transfers between levels of the fair value hierarchy when events or changes in circumstances causing the transfer occur.

The Syndicate carries all of its other financial assets and liabilities at cost.

(h) *Investment return*

Investment return consists of income from investments, gains and losses on the realisation of investments, and movements in unrealised gains and losses on investments, net of investment management expenses. Income from investments consists of interest, which the Syndicate recognises when earned. The Syndicate bases realised gains and losses on each investment on the difference between the sale proceeds and the cost of the investment. Movements in unrealised gains and losses on investments represent the difference between the carrying value of investments at the balance sheet date and the purchase price of investments in earlier accounting periods, after considering investment disposals. Investment management expenses consist of investment custodian and fund management fees.

The directors credit the investment return on the joint trust funds to underwriting years based on the advice of Lloyd's. The directors allocate the calendar year investment return on all other investments to underwriting years open during the calendar year in proportion to the average funds available for investment from each underwriting year.

The Syndicate first records its investment return in the non-technical account. The Syndicate then transfers this return to the general business technical account to reflect the investment return on funds supporting the Syndicate's underwriting business.

(i) *Net operating expenses*

The directors charge operating expenses to the underwriting year that the Syndicate incurred them for. Operating expenses include acquisition costs, administrative expenses, and reinsurance commissions and profit participation. Acquisition costs consist of coverholder and ceding commissions (on inward reinsurance acceptances) primarily related to the production of new and renewal business. Administrative expenses consist of:

i. operating costs,

ii. Managing Agent fees,

iii. Lloyd's membership costs, and

iv. auditor fees.

Accounting policies continued

Administrative expenses also include profit commissions charged by the Managing Agent. Profit commissions equal a percentage of each underwriting year's profits subject to a two-calendar-year deficit carry-forward provision. The Syndicate charges commissions to expense when incurred. The Syndicate receives a share of brokerage from reinsurance brokers and recognises it, when brokers place the reinsurance coverage.

Reinsurance commissions and profit participation consist of ceding and contingent profit commissions from reinsurers. The Syndicate recognises ceding commissions as it expenses the underlying reinsurance premiums and accrues for contingent profit commissions based the contract formulas. The Syndicate's contingent profit commission calculations include a provision for IBNR.

(j) *Taxation*

Schedule 19 of the Finance Act 1993 does not require the Managing Agent to deduct basic rate income tax from the Syndicate's trading income. Also, the Managing Agent may recover all U.K. basic rate income tax (now at 20%) deducted from the Syndicate's investment income. Therefore, payments of profits made to members of the Syndicate or their members' agents are gross of tax. Trading income includes capital appreciation, which is also paid gross of tax. The Syndicate did not make any provision for U.S. federal income tax payable on its underwriting results or investment earnings for the 2014 underwriting year. The Syndicate's members pay these taxes alongside the U.K. income taxes resulting from the Syndicate's trading and investment income for the underwriting years they participate on. The Syndicate includes any tax payments made on account of its members for the underwriting year in members' balances.

(k) *Foreign currency translation*

The Syndicate's functional and reporting currency is the U.S. Dollar. The directors measured foreign currency assets and liabilities for the 2014 underwriting year at the closing exchange rate in effect at the closure of the year, while they measured foreign currency revenues and expenses at the historical exchange rates in effect at the time of the related transactions.

4. Segment reporting

The table below details the underwriting year result before investment return by class of business.

	2014 Underwriting Year $000					
	Gross premiums written	Gross premium earned	Gross claims incurred	Gross operating expenses	Reinsurance balance	Total
Fire and other damage to property	135,323	135,323	(13,115)	(49,075)	(42,173)	30,960
RITC accepted	2,352	2,352	(2,352)	-	-	-
Total	137,675	137,675	(15,467)	(49,075)	(42,173)	30,960

Included in the reinsurance balance are reinsurance commissions and profit participation of $1.1 million.

Gross claims incurred consist of gross claims paid and gross RITC premiums payable. The reinsurance balance consists of outward reinsurance premiums less reinsurance recoveries on gross claims paid and anticipated reinsurance recoveries on gross RITC premiums payable.

The Syndicate only wrote business in the U.S.

5. Investment return

	2014 Underwriting Year $000
Income from investments	128
Gains on realisation of investments	10
Loss on realisation of investments	-
Unrealised gains on investments	5
Unrealised losses on investments	(18)
Investment management expenses	(85)
Total	40

The table below details the average funds available for investment, investment return, and investment yield for the underwriting year. The Syndicate held all of its investments in U.S. Dollars.

	2014 Underwriting Year $000
Average funds available for investment	30,087
Investment returns	40
Investment yields	0.1%

6. Net operating expenses

	2014 Underwriting Year $'000
Acquisition costs	37,572
Administrative expenses	11,547
Reinsurance commissions and profit participations	(1,078)
Total	48,041

The table below details administrative expenses included in net operating expenses for the underwriting year.

	2014 Underwriting Year $'000
Operating costs (including Managing Agent recharges)	5,563
Managing Agent fees and profit commissions	5,734
Lloyd's membership costs	1,000
Auditor remuneration – audit fees	284
Brokerage sharing	(1,034)
Total	11,547

Managing Agent fees consist of the service fees paid to the Managing Agent. Fees paid to the Syndicate's auditor were primarily in relation to the audit of annual and underwriting year accounts of the Syndicate and the audit of Lloyd's regulatory returns.

7. Key management personnel compensation

The directors of Asta did not receive any compensation for their services, nor did the directors participate on the Syndicate or have an interest in any of its contracts.

Asta employed an average of 10 people that worked for the Syndicate. Asta recharged the Syndicate for the payroll costs of one of these employees. Service fees paid to Asta as part of their Managing Agent fees included compensation for the other employees.

International Catastrophe Insurance Managers, LLC (ICAT Managers), a Delaware company, underwrites most of the Syndicate's insurance business. Boulder Claims, LLC (Boulder Claims), also a Delaware company and a wholly owned subsidiary of ICAT Managers (collectively ICAT), provides claims administration services to the Syndicate. ICAT also compensates the Syndicate's Active Underwriter, an employee it transferred to the Managing Agent. ICAT recharged a portion of the Active Underwriter's payroll expense, together with the payroll expenses of the Syndicate Operations Manager.

The payroll recharges, included in administrative expenses under operating costs, to the Syndicate by category for the underwriting year totalled $0.5m.

8. Other Financial Investments

	2014 Underwriting Year $000	
	Market value	Cost
Shares and other variable yield securities	2,300	2,300
Debt securities and other fixed income securities	2,170	2,167
Deposits with credit institutions (overseas deposits)	67	67
Total	4,537	4,534

	2014 Underwriting Year Fair Value Hierarchy $000			
	Level 1	Level 2	Level 3	Total
Shares and other variable yield securities	-	2,300	-	2,300
Debt securities and other fixed income securities	1,320	850	-	2,170
Deposits with credit institutions (overseas deposits)	41	26	-	67
Total	1,361	3,176	-	4,537

The Syndicate holds all of its debt and other fixed-income securities in the Lloyd's Dollar Trust Fund and the U.S. situs trust funds. Funds are required to be held in the U.S. situs trust funds to protect its policyholders as required by U.S. regulators; all of these securities are listed. Overseas deposits consist of funds contributed to joint asset trust funds which Lloyd's maintains to provide additional security to U.S. policyholders and third party claimants; the Syndicate cannot direct the investment of these funds. Both the U.S. situs trust funds and joint trust funds are unavailable for use in the Syndicate's operations. The Syndicate did not write-down any of the 2014 underwriting year's allocated investments.

9. Non cash consideration for net RITC received

	2014 Underwriting Year $000
Non cash consideration for Net RITC received comprised	
Financial Investments	4,546
Debtors	13
Creditors	(662)
	3,897

10. Movement in cash and financial investments

	2014 Underwriting Year				
	At January 2014 $000	Received within RITC premium $000	Cash flow $000	Changes to fair value $000	At 31 December 2016 $000
Shares and other variable yield securities	-	784	1,516	-	2,300
Debt securities and other fixed income securities	-	3,704	(1,534)	-	2,170
Deposits with credit institutions (overseas deposits)	-	58	9	-	67
	-	4,546	(9)	-	4,537
Cash at bank and in hand	-	183	(53)	-	130
Total cash and financial investments	-	4,729	(62)	-	4,667

11. Other assets

	2014 Underwriting Year $000
Cash at bank and in hand	130

12. Balance on technical account – general business

	2014 Underwriting Year $000
Profit for the closed year of account, excluding surpluses (deficits) from earlier underwriting years reinsured, net operating expenses, and allocated investment return transferred from the non-technical account	77,412
Surpluses (deficits) from earlier underwriting years reinsured:	
2013 pure underwriting year	1,350
2012 pure underwriting year	285
2011 pure underwriting year	(41)
2010 pure underwriting year	(4)
2009 pure underwriting year	(1)
2008 pure underwriting year	-
Total surpluses (deficits) from underwriting years reinsured	1,589
Net operating expenses	(48,041)
Allocated investment return transferred from the non-technical account	40
Balance on technical account – general business	31,000

13. Net RITC premium payable

	2014 Underwriting Year $000		
	Gross	Reinsurers' share	NET RITC Premium Payable
Claims notified	1,077	(342)	735
Claims IBNR	1,246	(59)	1,187
Total	2,323	(401)	1,922

14. Other creditors

	2014 Underwriting Year $000
Amounts owed to associated companies	289
Amounts owed to Managing Agent	192
U.S. Federal excise taxes payable	22
	503

15. Risk management

The board of directors of the Managing Agent has overall responsibility for the establishment and oversight of the Syndicate's risk and capital management. Effective from 31 December 2016, the RITC process means that Insurance, Financial, Credit, Liquidity, Market and Capital risks are transferred to the accepting 2015 Year of Account of the syndicate. Accordingly, these Underwriting Year accounts do not have any associated disclosures as required by section 34 of FRS 102. Full disclosures relating to these risks are provided in the main Annual accounts of the syndicate.

16. Related parties

Asta is the Managing Agent of the Syndicate.

This table details amounts paid to Asta on the underwriting year.

	2014 Underwriting Year $000
Managing Agent fees on insurance capacity	1,309
Service fees	2,400
Recharges (expenses)	541
Profit commissions	4,424
Total paid	8,674

Commissions paid to ICAT for underwriting services totalled $31.9 million on gross written premiums of $135.3 million for the 2014 underwriting year. Fees paid to Boulder Claims for claims administration services totalled $1.4 million for the 2014 underwriting year.

Related parties continued

ICAT is an indirect subsidiary of Paraline Group, Ltd. (Paraline Group), a company registered in Bermuda that also provided 33.1% of the Syndicate's insurance capacity for the 2014 underwriting year through its indirectly owned Paraline and ICAT corporate members. Paraline Reinsurance, Ltd. (Paraline Re), an indirectly owned Bermudian reinsurance company of Paraline Group supported the Paraline corporate member's participation on the Syndicate for the 2014 underwriting year, while unrelated foreign reinsurers fully supported the ICAT corporate members' participation. An affiliate of Paraline Group, Elliott CCM Limited, provided another 3.6% of capacity. The table below details the percentage of total Syndicate capacity provided by other parties.

	2014 Underwriting Year $000
Everest Corporate Member Limited	8.1%
Hampden Agencies Limited (MAPA 7217)	11.6%
IAT CCM Limited	8.5%
Labuan Re Underwriting Limited	14.6%
SCOR Underwriting Limited	12.0%
Taiping Re UK Ltd	8.5%
Total	63.3%

A reinsurance affiliate of SCOR Underwriting Limited, SCOR Global P&C SE (SCOR Global), together with other reinsurers also provides layered, non-proportional catastrophe reinsurance without prepaid reinstatement to the Syndicate to protect against the occurrence of large catastrophes. SCOR Global's share of the Syndicate's catastrophe reinsurance coverage is 5.3% (5.6% before 1 April 2014), accounting for 4.7% of the Syndicate's overall reinsurance costs.

From time to time, Syndicates managed by Asta enter into (re)insurance contracts with one another. All such transactions are subject to Asta's internal controls which ensure that all are compliant with Lloyd's Related Party Byelaw provisions. All transactions are entered into on an arms length basis.

Before 1 April 2014, Paraline Re, a wholly owned subsidiary of Bermuda-based Paraline International, Ltd (Paraline International) together with other reinsurers provided layered, non-proportional catastrophe reinsurance premium protection to the Syndicate to cover potential reinstatement premiums; Paraline Re's share of this coverage was 14.7%, accounting for 2.5% of the Syndicate's overall reinsurance costs.

Paraline International, a wholly owned subsidiary of Paraline Group, owns 30.21% of Asta's ultimate parent, Asta Capital Limited, a company incorporated in the U.K. and registered in England and Wales.

During 2016 Asta was the managing agent for eight Syndicates and three Special Purpose Arrangements. Syndicate 1686, 1729, 1897, 1910, 2357, 2525, 2786 and 4242 as well as Special Purpose Arrangements 6117, 6123 and 6126 were managed on behalf of third party capital providers.

On 7 February 2017, Syndicates 1910 and 6117 migrated to Argo Managing Agency Limited.

On 1 January 2017, Asta took on management of Syndicate 2689 and Syndicate 5886.

Related parties continued

The agency also provides administrative services to Syndicates and undertakes a number of ancillary roles for clients.

The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 1).

17. Subsequent events

The Syndicate will make a final profit distribution of $3.4 million to 2014 underwriting year's participating members in the second quarter of 2017.

Seven year summary of closed year of account results

as at 31 December 2016

	Note	2014	2013	2012	2011	2010	2009	2008
		Closed Year of Account						
Syndicate insurance capacity (£000)		80,000	80,000	80,000	80,000	99,000	83,637	83,646
Syndicate insurance capacity ($000)		99,200	124,272	124,000	125,600	159,390	129,637	131,324
Number of underwriting members		10	10	12	10	7	7	7
Earned premiums, net of reinsurance and acquisition costs ($000)		53,565	50,834	43,635	36,900	39,299	36,821	33,813
Results for an illustrative share of £10,000 of insurance capacity		$	$	$	$	$	$	$
Gross premiums written		16,915	15,628	14,805	13,409	10,500	14,513	14,303
Earned premiums, net of reinsurance and acquisition costs		6,696	6,354	5,454	4,613	3,970	4,402	4,402
Premium for the reinsurance to close an earlier year of account		294	318	94	104	(47)	(147)	103
Claims paid, net of reinsurance		(1,571)	(1,403)	(2,669)	(1,627)	(1,368)	(409)	(4,919)
Premium for the reinsurance to close the year of account		(240)	(294)	(318)	(94)	(84)	56	147
Profit (loss) on foreign exchange		(4)	(6)	(5)	4	(1)	(1)	(104)
Operating expenses		(467)	(38)	(327)	(146)	(270)	(99)	(165)
Balance on technical account		4,708	4,931	2,230	2,854	2,200	3,802	(896)
Investment return		5	6	1	5	24	39	17
Profit (loss) for the closed year		4,713	4,937	2,231	2,859	2,224	3,841	(879)
Illustrative profit commission – Managing Agent's share		(553)	(519)	(242)	(289)	(251)	(308)	-
Illustrative personal expenses	1	(306)	(785)	(474)	(547)	(219)	(331)	(414)
Profit (Loss) after illustrative profit commission and personal expenses	2	3,854	3,633	1,515	2,023	1,754	3,202	(1,293)
		£	£	£	£	£	£	£
Profit (Loss) after illustrative profit commission and personal expenses	2	3,108	2,454	975	1,219	1,076	2,065	(823)

(1) Illustrative Personal Expenses

Illustrative personal expenses include Managing Agent fees on insurance capacity and Lloyd's membership costs (members' subscriptions and contribution to the New Central Fund).

(2) Profit (Loss) After Illustrative Profit Commission and Personal Expenses

Syndicate 4242's functional currency is the U.S. Dollar (see note (3)(i) to the underwriting year accounts); the directors therefore presented the Seven Year Summary of Closed Year of Account Results in U.S. Dollars.