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**SYNDICATE 5151 ANNUAL REPORT AND
ACCOUNTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

CONTENTS

	Page No.
Directors and Administration	1
Report of the directors of Endurance At Lloyd's Limited	2
Statement of Managing Agent's responsibilities	6
Independent auditors' report to the member of Syndicate 5151	7 – 8
Income Statement – Technical account – General business	9
Income Statement – Non-technical account	10
Statement of comprehensive income	10
Statement of changes in member's balances	11
Statement of financial position – Assets	12
Statement of financial position – Member's balances and Liabilities	13
Statement of cash flows	14
Notes to the financial statements	15 - 46

Directors and Administration

Managing Agent:

Endurance At Lloyd's Limited
(Registered No. 06539650)

Executive Directors:

G Evans
R J R Housley
P A Rooke
C B Gallagher (appointed 19 January 2016)

Non-Executive Directors:

I M Winchester
J A Kuhn
S W Carlsen
J J Murray
J A Giordano

Secretary

D S Lurie (appointed 7 November 2016)
G S G Tennyson (resigned 2 November 2016)

Auditors

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

Bankers

Barclays Bank Plc
Citibank NA
RBC Dexia

Solicitors

Ashurst LLP
Broadwalk House
5 Appold Street
London
EC2A 2HA

Registered Office

1st Floor
2 Minster Court
Mincing Lane
London
EC3R 7BB

REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED

The directors of Endurance at Lloyd's Limited, ("the Company"), company registration number 06539650, registered office 1st Floor, 2 Minster Court, Mincing Lane, London EC3R 7BB, present their report and Syndicate 5151 ("the Syndicate") Annual Accounts for the year ended 31 December 2016.

Review of the business

The principal activity of the Syndicate continues to be the underwriting of general insurance and reinsurance business in the Lloyd's market.

Results and performance

The Syndicate's underwriting business is managed along four key lines, Property, Marine & Energy, Specialty and Professional lines. The Syndicate's key performance indicators during the year were as follows:

Performance	2016 £m	2015 £m	Change
Gross Written Premiums	235.6	175.3	34.4%
Net Earned Premiums	120.4	105.8	13.8%
Net Claims Incurred	(68.1)	(54.5)	24.9%
Expenses	(54.9)	(52.3)	5.0%
Underwriting Result	(2.6)	(1.0)	
Investment return	2.0	1.9	5.2%
Balance on technical account	(0.6)	0.9	
Unrealised foreign exchange gain/(loss)	0.6	(0.4)	
Profit for the financial year	0.0	0.5	
Claims ratio	56.6%	51.5%	5.5%
Expense ratio	45.6%	49.4%	(3.8%)
Combined ratio	102.2%	100.9%	1.7%

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

Gross written premiums grew from £175.3m in 2015 to £235.6m in 2016. The majority of the Syndicate's lines of business continue to face rating pressure. Management has focused on re-underwriting the existing book of business, ceasing writing business which does not meet the Syndicate's risk appetite, and growing the business organically in all lines.

The Syndicate generated an underwriting loss of £2.6m for the year (2015 – £1.0m loss), representing a combined ratio of 102.2% (2015 – 100.9%). After the addition of investment returns and foreign exchange the overall result for 2016 is a profit of £21k (2015 – £0.5m).

The Syndicate recorded a claims ratio of 56.6% during 2016 (2015 – 51.5%). This is the result of a relatively benign claims environment in 2016, notable for the absence of any major catastrophic events. Further to this the Syndicate benefitted from positive development on prior year claims reserves of £24.7m (2015 - £20.2m), predominantly in respect of Property and Marine & Energy lines of business, as a result of lower than expected claims activity due to the benign claims environment.

The Syndicate purchases outwards reinsurance to protect against large losses from future events. Treaty reinsurance is purchased on an excess of loss, quota share and facultative basis. Excess of loss and facultative

REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED (CONTINUED)

reinsurance is purchased from third party reinsurers. Premiums ceded on this basis amounted to £33.9m during 2016 (2015 – £11.2m). Quota share reinsurance purchased with third party reinsurers amounted to £63.7m in 2016 (2015 - £16.6m).

The Syndicate was also party to quota share reinsurance arrangements with other related companies, including Endurance Specialty Insurance Ltd (“ESIL”) which provides reinsurance protection for 30% of the losses incurred on the 2012, 2013, 2014, 2015 and 2016 accident years; premiums ceded on this basis totalled £33.8m during 2016 (2015 – £32.8m).

Future developments

The Syndicate intends to grow by continuing to expand its existing business written at the Box in Lloyd’s, via diversification of the portfolio through identification of new profitable lines of business, and through an increased focus on individual risk business. The Syndicate delivers its annual Syndicate Business Forecast (“SBF”) to Lloyd’s each year and this forms the basis of the Syndicate’s short term business plans. The Syndicate’s 2017 SBF was submitted with planned gross written premium of £342.7m (2016 - £259.9m). The SBF contains targeted growth in areas where the Syndicate has recently expanded its underwriting teams.

The risks to UK economic growth remain significant not least because of the UK’s decision to leave the European Union (“EU”) (“Brexit”). Negotiations are expected to commence shortly to determine the terms of the United Kingdom’s withdrawal from the European Union, as well as its relationship with the European Union going forward. There is significant change and associated uncertainty ahead for the market as a result.

EU membership and access to the single market has enabled underwriters at Lloyd’s to underwrite insurance business in all of the other 27 member states on a cross-border basis. The underwriters write business on a passporting basis, which allows them to conduct business throughout the EU while being regulated and supervised by the Prudential Regulatory Authority (“PRA”). The loss of passporting rights will mean that Lloyd’s cannot write insurance business on a cross-border basis in the future. As a result, Lloyd’s is investigating certain locations in which to base a subsidiary to maintain access to this business. A decision on the new European Union hub is expected by the end of March. The Board awaits the decision on this point to determine if any further strategic actions need to be taken for the Syndicate in relation to European business.

Events since the reporting date

On February 27, 2017, the UK Ministry of Justice announced a cut in the Ogden Discount Rate (“ODR”) from 2.5% to -0.75%. The ODR is the discount rate applied to lump-sum personal injury payments to claimants and is expected to increase lump sum awards for bodily injury claims calculated with reference to Ogden table rates relative to Periodic Payment Orders (“PPOs”). The Syndicate has limited exposure to this event within Employers’ Liability and Motor Excess of Loss lines of business and as a result considers this to be an immaterial impact.

Principal risks and uncertainties

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

REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED (CONTINUED)

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

Insurance risk

Insurance risk includes both underwriting risk and reserving risk. Underwriting risk represents the risks that a policy will be written for too low a premium or provide inappropriate cover, or that the frequency or severity of insured events will be higher than expected. Reserving risk represents the risk that claims estimates subsequently prove to be insufficient. The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. Performance against the business plan is monitored regularly throughout the year by the Underwriting Committee and the Board. Reserve adequacy is monitored by quarterly reviews by the Syndicate Actuary who reports to the Audit Committee and the Board. In addition, the Syndicate purchases outwards reinsurance on an excess of loss and facultative basis to protect against large losses from future events, as well as quota share reinsurance from third parties and other group companies to manage its exposures and enable diversification of its inwards insurance risk.

Credit risk

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

Market risk

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

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

Liquidity risk

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

Financial instruments and risk management

Information on the use of financial instruments by the Syndicate and its management of financial risk and in particular its exposure to interest rate risk, equity price risk, currency risk, credit risk and liquidity risk is disclosed in note 23 to the financial statements.

Operational risk

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

REPORT OF THE DIRECTORS OF ENDURANCE AT LLOYD'S LIMITED (CONTINUED)

Regulatory and compliance risk

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

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

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

Directors

The directors of the Managing Agent during the year ended 31 December 2016 up to the date of approval of the financial statements were as listed on page 1.

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

Disclosure of information to the auditors

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

Auditors

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

By order of the Board

G Evans
Director

15 March 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

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

The annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the syndicate annual accounts, the Managing Agent is required to:

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

The directors confirm they have complied with the above requirements in preparing the syndicate annual report and accounts for Syndicate 5151.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBER OF SYNDICATE 5151

We have audited the syndicate annual accounts of syndicate 5151 ('the syndicate') for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Member's Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

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

Respective responsibilities of the managing agent and the auditor

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

Scope of the audit of the syndicate annual accounts

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

Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

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

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

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

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

Matters on which we are required to report by exception

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

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

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

20 March 2017

INCOME STATEMENT

TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016		2015
		£'000	£'000	Restated £'000
Earned premiums, net of reinsurance				
Gross premiums written	5		235,561	175,319
Outward reinsurance premiums			(132,074)	(74,099)
Net premiums written			<u>103,487</u>	<u>101,220</u>
Change in provision for unearned premiums				
Gross amount	15	(24,652)		(5,264)
Reinsurers' share	15	<u>41,597</u>		<u>9,796</u>
Change in net provision for unearned premiums			16,945	4,532
Earned premiums, net of reinsurance			<u>120,432</u>	<u>105,752</u>
Allocated investment return				
Transferred from the non-technical account			2,018	1,874
Claims paid, net of reinsurance				
Gross amount		(114,512)		(79,849)
Reinsurers' share		45,436		30,318
		<u>(69,076)</u>		<u>(49,531)</u>
Change in the provision for claims				
Gross amount		(24,356)		(6,470)
Reinsurers' share		25,313		1,526
Change in the net provision for claims		<u>957</u>		<u>(4,944)</u>
Claims incurred, net of reinsurance			(68,119)	(54,475)
Net operating expenses	6		(54,927)	(52,278)
Balance on the technical account for general business			<u>(596)</u>	<u>873</u>

All operations are continuing.

INCOME STATEMENT

NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
		£'000	Restated £'000
Balance on the general business technical account		(596)	873
Investment result			
Investment income		3,596	3,847
Unrealised gains on investments		646	219
Unrealised losses on investments		(908)	(334)
Investment expenses and charges		(1,316)	(1,858)
Allocated investment return			
Transferred to the general business technical account		(2,018)	(1,874)
		-	-
Unrealised foreign exchange gains/(losses)		617	(365)
Profit for the financial year		21	508

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

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

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016	2015
		£'000	£'000
Profit for the financial year		21	508
Currency translation differences		(4,796)	-
Total comprehensive income for the year		(4,775)	508

STATEMENT OF CHANGES IN MEMBER'S BALANCES

AS AT 31 DECEMBER 2016

	2016 £'000	2015 £'000
Member's balances brought forward at 1 January	(28,512)	(13,591)
Transfer from/(to) corporate member in respect of underwriting participation on closed year of accounts:		
Amount declared and settled with corporate member	1,313	(15,429)
Total comprehensive income for the financial year	(4,775)	508
Member's balances carried forward at 31 December	<u>(31,974)</u>	<u>(28,512)</u>

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

STATEMENT OF FINANCIAL POSITION - ASSETS

AS AT 31 DECEMBER 2016

	Notes	2016		2015
		£'000	£'000	Restated £'000
Investments				
Financial investments	9		121,334	140,230
Reinsurers' share of technical provisions				
Provision for unearned premiums	15	63,881		14,724
Claims outstanding	16	<u>114,589</u>		<u>75,966</u>
			178,470	90,690
Debtors				
Debtors arising out of direct insurance operations	10	80,719		50,738
Debtors arising out of reinsurance operations	11	47,441		27,552
Other debtors		<u>4,768</u>		<u>2,003</u>
			132,928	80,293
Other assets				
Cash at bank and in hand	13	38,088		16,461
Other assets	12	<u>19,735</u>		<u>17,549</u>
			57,823	34,010
Prepayments and accrued income				
Deferred acquisition costs	14	31,255		23,740
Other prepayments and accrued income		<u>542</u>		<u>1,132</u>
			31,797	24,872
Total assets			<u><u>522,352</u></u>	<u><u>370,095</u></u>

STATEMENT OF FINANCIAL POSITION – MEMBER’S BALANCES AND LIABILITIES

AS AT 31 DECEMBER 2016

	Notes	2016		2015
		£'000	£'000	Restated £'000
Member’s balances			(31,974)	(28,512)
Total Member’s balances			<u>(31,974)</u>	<u>(28,512)</u>
Technical provisions				
Provisions for unearned premiums	15	144,530		94,991
Claims outstanding	16	<u>304,206</u>		<u>244,293</u>
			448,736	339,284
Creditors				
Creditors arising out of direct insurance operations	17	532		3,102
Creditors arising out of reinsurance operations	18	84,641		45,975
Other creditors, including taxation and social security	19	<u>3,689</u>		<u>5,246</u>
			88,862	54,323
Accruals and deferred income	14		16,728	5,000
Total liabilities			<u>554,326</u>	<u>398,607</u>
Total Member’s balances and liabilities			<u>522,352</u>	<u>370,095</u>

The financial statements on pages 9 to 46 were approved by the Board of Endurance at Lloyd’s Limited on 15 March 2017 and were signed on its behalf by:

G Evans
Director

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
Profit on ordinary activities		21	508
Increase in gross technical provisions		109,452	20,481
(Increase) in reinsurers' share of technical provisions		(87,780)	(13,955)
(Increase) in debtors		(52,634)	(2,915)
Increase in creditors		34,539	4,074
Movement in other assets / liabilities		4,804	2,242
Investment return		(2,018)	(1,874)
Cash flows from operating activities		<u>6,384</u>	<u>8,561</u>
Purchase of equity and debt instruments		(246,116)	(64,514)
Sale of equity and debt instruments		256,899	86,555
Investment income received		2,415	2,197
Cash flows from investing activities		<u>13,198</u>	<u>24,238</u>
Transfer from/(distribution to) members		1,313	(15,429)
Cash flows from financing activities		<u>1,313</u>	<u>(15,429)</u>
Net increase in cash and cash equivalents		<u>20,895</u>	<u>17,370</u>
Cash and cash equivalents at beginning of the year		34,010	17,400
Exchange differences on opening cash		2,918	(760)
Cash and cash equivalents at end of the year	13	<u><u>57,823</u></u>	<u><u>34,010</u></u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

1. Statement of compliance

The financial statements are prepared as at 31 December 2016 and for the year ended 31 December 2016.

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

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

2. Basis of preparation

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Endurance at Lloyd's Limited ("the Company") on 15 March 2017.

The directors of the managing agent have prepared the financial statements on the basis that the Syndicate will continue to write future business and settle its obligations as they become due. The financial statements are prepared in Sterling which is the presentational 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.

Certain prior period items have been represented to conform with the current period presentation. In addition, there are prior period income statement and balance sheet restatements in the financial statements. Please refer to notes 5, 10, 11, 14, 17, 18 and 23.

The Syndicate changed its functional currency to US dollars with effect from 1st January 2016.

3. Judgements and key sources of estimation uncertainty

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

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

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

Insurance contract technical provisions

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

Details of the methodology and key assumptions are provided in note 16. Additionally further reference is made within the risk management section in relation to insurance risk in note 23.

4. Significant accounting policies

Premiums

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

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

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

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

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

Investment return

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. Significant accounting policies (continued)

Claims reserves and related recoveries

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

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

Deferred acquisition costs

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

Unexpired risks

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

Reinsurance to close ("RITC")

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

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

Offsetting of financial instruments

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

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

Cash and cash equivalents

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. Significant accounting policies (continued)

Financial assets

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. Significant accounting policies (continued)

Fair value of financial assets

The Syndicate chose to early adopt the provisions of FRS102 on fair value hierarchy. The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

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

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

Impairment of financial assets

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

Derecognition of financial assets

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. Significant accounting policies (continued)

Financial liabilities

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

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

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

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

Taxation

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

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

Foreign currencies

Effective, 1st January 2016, the functional currency is US Dollars but the financial statements are prepared in Sterling which is the presentational currency of the Syndicate and rounded to the nearest £'000.

Financial reporting Standard 102 requires each entity to identify its functional currency and a presentational currency. The functional currency is identified as the currency of the primary economic environment in which the entity operates. The functional currency of this Syndicate is US Dollars as the majority of the underwriting business, cash flows and expenses are denominated in US Dollars. The Managing Agent has chosen to maintain the presentational currency as Sterling as the Syndicate is based in the UK, complies with UK reporting standards and is consistent with reporting to Lloyd's.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

4. Significant accounting policies (continued)

Foreign currencies (continued)

As permitted by FRS103, the Syndicate has continued with its existing accounting policy to treat non-monetary assets and liabilities arising from insurance contracts (which include items such as unearned premiums and deferred acquisition costs) the same as monetary assets and liabilities. Consequently all assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date or if appropriate at the forward contract rate.

Exchange differences are recorded in the non-technical account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

5. Segmental analysis

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

2016	Gross written premiums £'000	Gross Premiums Earned £'000	Gross claims incurred £'000	Net Operating Expenses £'000	Re-insurance Balance £'000	Total £'000
Direct insurance:						
Accident and health	100	79	(1)	(29)	(25)	24
Motor (Other Classes)	2,564	1,078	(3,332)	(380)	952	(1,682)
Marine	27,517	24,299	(19,346)	(6,319)	(550)	(1,916)
Aviation	17,384	3,167	(3,033)	(532)	(68)	(466)
Transport	7,302	4,925	(7,495)	(1,321)	324	(3,567)
Energy-marine	13,864	9,397	(193)	(2,015)	(3,263)	3,926
Energy non-marine	7,738	5,553	(14,741)	(542)	4,973	(4,757)
Fire and other	47,934	56,077	(36,773)	(13,061)	(7,970)	(1,727)
damage to property						
Third-party liability	50,909	37,877	(24,149)	(13,193)	(3,488)	(2,953)
Pecuniary loss	26,302	16,315	(4,673)	(4,888)	(7,093)	(339)
	201,614	158,767	(113,736)	(42,280)	(16,208)	(13,457)
Reinsurance	33,947	52,142	(25,132)	(12,647)	(3,520)	10,843
Total	235,561	210,909	(138,868)	(54,927)	(19,728)	(2,614)

Commissions on direct insurance gross premiums during 2016 were £46.2m (2015 - £31.0m). All premiums were concluded in the UK.

2015	Gross Written Premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net Operating expenses £'000	Re-Insurance Balance £'000	Total £'000
Direct insurance:						
Accident and health	(67)	(24)	31	7	(3)	11
Marine	27,435	26,488	(16,639)	(7,909)	(3,980)	(2,040)
Transport	6,847	7,470	(5,749)	(2,226)	(977)	(1,482)
Energy-marine	294	383	(255)	(140)	(27)	(39)
Energy non-marine	134	93	52	(25)	(48)	72
Fire and other	31,021	31,363	(15,782)	(10,265)	(5,503)	(187)
damage to property						
Third-party liability	25,150	23,276	(20,980)	(8,340)	(755)	(6,799)
Pecuniary loss	26,344	13,210	(6,483)	(3,667)	(3,262)	(202)
	117,158	102,259	(65,805)	(32,565)	(14,555)	(10,666)
Reinsurance	58,161	67,796	(20,514)	(19,713)	(17,904)	9,665
Total	175,319	170,055	(86,319)	(52,278)	(32,459)	(1,001)

In 2015, foreign exchange on certain ceded reinsurance balances was incorrectly applied to the movement on reinsurance recoveries in the Income Statement. This has been corrected during 2016, resulting in a prior period Income Statement reclassification adjustment of £1.6m (increase in reinsurance recoveries, offset by technical foreign exchange loss) with no impact on net income.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

6. Net operating expenses

	2016	2015
	£'000	£'000
Acquisition costs	52,923	43,805
Change in deferred acquisition costs	7,803	2,683
Administrative expenses	17,101	28,826
Reinsurer's commissions	(22,900)	(23,036)
	<u>54,927</u>	<u>52,278</u>

Administrative expenses include:

	2016	2015
	£'000	£'000
Audit services:		
Fees payable to the Syndicate's auditors for the audit of the Syndicate's accounts	226	236
Non-audit services:		
Other services pursuant to Regulations and Lloyd's Byelaws	68	50
Valuation and actuarial services	50	35
Members' standard personal expenses:		
Lloyd's subscriptions	1,156	672
New Central Fund contributions	962	619
Managing Agent's fees	1,100	900
Not included in Syndicate administrative expenses:		
Audit of the Managing Agency	14	15

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

7. Staff numbers and costs

All staff, at year end, were employed by Endurance Business Services Limited (“EBSL”), a wholly-owned subsidiary of Endurance Specialty Holdings Ltd. (“ESHL”), and recharged to the Syndicate. Prior to 1 September 2016, staff were employed by Endurance Worldwide Insurance Limited (“EWIL”). The following amounts were recharged from EBSL and EWIL to the Syndicate in respect of salary costs:

	2016 £’000	2015 £’000
Wages and salaries	11,235	16,100
Social security costs	1,460	1,831
Other pension costs	470	588
	<u>13,165</u>	<u>18,519</u>

Included within wages and salaries during the year were one-off severance costs of £nil (2015 - £9.3m).

The average number of employees employed by EBSL and EWIL performing services directly on behalf of the Syndicate during the year was as follows:

	2016 Number	2015 Number
Administration and finance	16	24
Underwriting	22	22
Claims	4	6
	<u>42</u>	<u>52</u>

8. Directors’ emoluments

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

	2016 £’000	2015 £’000
Emoluments	881	12,593
Contributions to defined contribution pensions	<u>36</u>	<u>94</u>

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

	2016 £’000	2015 £’000
Emoluments	308	3,593
Contributions to defined contribution pensions	<u>8</u>	<u>45</u>

Included within directors’ and active underwriters emoluments during the year were one-off severance costs of £Nil (2015 - £7.0m and £1.6m respectively).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

9. Financial investments

	Market Value 2016 £'000	Cost 2016 £'000	Market Value 2015 £'000	Cost 2015 £'000
Held at fair value through profit or loss				
Holdings in collective investment schemes	5,769	5,769	10,216	10,216
Fixed interest securities	114,914	117,856	122,573	123,747
Floating interest rate securities	651	786	7,441	7,441
	121,334	124,411	140,230	141,404

Included in the market values above are £87.2m (2015 - £103.2m) in respect of listed investments.

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 31 December 2016				
Debt and other fixed income securities	-	115,565	-	115,565
Holdings in collective investment schemes	2,544	3,225	-	5,769
Total	2,544	118,790	-	121,334
At 31 December 2015				
Debt and other fixed income securities	-	130,014	-	130,014
Holdings in collective investment schemes	10,216	-	-	10,216
Total	10,216	130,014	-	140,230

10. Debtors arising out of direct insurance operations

	2016 £'000	2015 Restated £'000
Due from intermediaries within one year	80,719	50,738

In 2015, £10.4m has been reclassified from debtors due from direct insurance operations to debtors arising from reinsurance operations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

11. Debtors arising out of reinsurance operations

	2016	2015
	£'000	Restated £'000
Due from ceding insurers and intermediaries	19,088	10,354
Due from reinsurers and intermediaries	28,353	17,198
Due within one year	<u>47,441</u>	<u>27,552</u>

In 2015, £10.4m has been reclassified from debtors due from direct insurance operations to debtors arising from reinsurance operations. In addition, debtors arising from reinsurance operations and creditors arising out of reinsurance operations were both overstated by an equal and offsetting amount of £11.9m, due to an erroneous grossing up of reinsurance commission receivable balance.

12. Other assets

	2016	2015
	£'000	£'000
Overseas deposits	<u>19,735</u>	<u>17,549</u>

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

13. Cash and cash equivalents

	2016	2015
	£'000	£'000
Cash at bank and in hand	38,088	16,461
Overseas deposits	19,735	17,549
	<u>57,823</u>	<u>34,010</u>

14. Deferred acquisition costs

	2016	2015
	£'000	restated £'000
At 1 January	23,740	22,808
Change in deferred acquisition costs	2,017	1,681
Foreign exchange	5,498	(749)
At 31 December	<u>31,255</u>	<u>23,740</u>

In 2015, the deferred acquisition costs balance contained a credit balance which related to deferred acquisition costs on ceded business. This amount has been reclassified to liabilities within accruals and deferred income resulting in both line items being restated by an equal and offsetting amount of £4.4m.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

15. Provision for unearned premiums

	Gross £'000	Reinsurers' share £'000	Net £'000
At 1 January 2015	89,571	(4,423)	85,148
Premiums written in the year	175,319	(74,099)	101,220
Premiums earned in the year	(170,055)	64,303	(105,752)
Foreign exchange	156	(505)	(349)
At 31 December 2015	<u>94,991</u>	<u>(14,724)</u>	<u>80,267</u>
At 1 January 2016	94,991	(14,724)	80,267
Premiums written in the year	235,561	(132,074)	103,487
Premiums earned in the year	(210,909)	90,477	(120,432)
Foreign exchange	24,887	(7,560)	17,327
At 31 December 2016	<u>144,530</u>	<u>(63,881)</u>	<u>80,649</u>

16. Claims outstanding

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

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

Favourable prior year claims development of £24.7m (2015 – £20.2m) was experienced in 2016, predominantly in respect of Property and Marine & Energy lines of business, as a result of lower than expected claims activity due to the benign claims environment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

16. Claims outstanding (continued)

	Gross 2016 £'000	Reinsurers' share 2016 £'000	Net 2016 £'000	Gross 2015 £'000	Reinsurers' share 2015 £'000	Net 2015 £'000
Reported claims	113,187	(35,101)	78,086	100,320	(30,026)	70,294
Incurred but not reported	129,843	(40,865)	88,978	130,581	(42,744)	87,837
Loss adjustment expenses	1,263	-	1,263	1,420	-	1,420
At 1 January	<u>244,293</u>	<u>(75,966)</u>	<u>168,327</u>	<u>232,321</u>	<u>(72,770)</u>	<u>159,551</u>
Claims paid during the year	(114,512)	45,436	(69,076)	(79,849)	30,318	(49,531)
Claims incurred during the year	138,868	(70,749)	68,119	86,319	(31,844)	54,475
Foreign exchange	35,556	(13,309)	22,247	5,502	(1,670)	3,832
Total movement	<u>59,912</u>	<u>(38,622)</u>	<u>21,290</u>	<u>11,972</u>	<u>(3,196)</u>	<u>8,776</u>
Reported claims	133,887	(47,512)	86,375	113,187	(35,101)	78,086
Incurred but not reported	168,598	(67,077)	101,521	129,843	(40,865)	88,978
Loss adjustment expenses	1,721	-	1,721	1,263	-	1,263
At 31 December	<u>304,206</u>	<u>(114,589)</u>	<u>189,617</u>	<u>244,293</u>	<u>(75,966)</u>	<u>168,327</u>

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

16. Claims outstanding (continued)

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

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

17. Creditors arising out of direct insurance operations

	2016	2015
	£'000	Restated £'000
Due to intermediaries within one year	<u>532</u>	<u>3,102</u>

In 2015, £0.7m has been reclassified from creditors arising out direct insurance operations to creditors arising out of reinsurance operations.

18. Creditors arising out of reinsurance operations

	2016	2015
	£'000	Restated £'000
Due to ceding insurers and intermediaries	3,588	4,483
Due to reinsurers and intermediaries	<u>81,053</u>	<u>41,492</u>
Due within one year	<u>84,641</u>	<u>45,975</u>

In 2015, creditors arising from reinsurance operations and debtors arising out of reinsurance operations were both overstated by an equal and offsetting amount of £11.9m, due to an erroneous grossing up of reinsurance commission receivable balance. In addition, £0.7m has been reclassified from creditors arising out of direct insurance operations to creditors arising out of reinsurance operations.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

19. Other creditors, including taxation and social security

	2016	2015
	£'000	£'000
Amounts due to group companies	3,685	5,039
Amount due to investment manager	4	134
Other creditors	-	73
	<u>3,689</u>	<u>5,246</u>

Other creditors includes £Nil (2015 - £73k) due after more than one year.

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

20. Funds at Lloyd's

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

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

21. Ultimate parent company

The Syndicate's ultimate parent undertaking is Endurance Specialty Holdings Limited ("ESHL") incorporated in Hamilton, Bermuda. A copy of the financial statements of ESHL can be obtained from 1st Floor, 2 Minster Court, Mincing Lane, London EC3R 7BB, or Waterloo House, 100 Pitts Bay Road, Pembroke HM08, Bermuda.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

22. Related parties

The Managing Agent of the Syndicate's Board of Directors are also Directors of EWIL. I M Winchester is also a director of Endurance Specialty Holdings Ltd, the ultimate holding company of the Syndicate and managing agent. G Evans, R J R Housley and P A Rooke are also directors of Endurance Holdings Limited, Endurance Corporate Capital Limited, Endurance Business Services Limited and Endurance Global Weather Risk Advisors Limited.

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

During the year the Syndicate purchased reinsurance from ESIL. The cost of the reinsurance protection was £33.8m (2015 – £34.1m). As at the year end net technical balances included £19.2m (2015 - £50.2m) in respect of amounts owed to ESIL.

The Syndicate was also party to four additional quota share arrangements with Blue Water Re Ltd affiliates which provided cover on the Property Treaty catastrophe book totalling £0.4m (2015 - £nil). As at the year end net technical balances included £0.2m (2015 - £nil) in respect of amounts due from Blue Water Re Ltd.

The Syndicate paid fees to Endurance at Lloyd's Limited ("EAL"), the managing agency for the Syndicate, of £1.1m (2015 – £0.9m), based on a fixed percentage of the Syndicate's underwriting capacity. As at the year end other creditors included £0.3m (2015 - £0.2m) in respect of amounts owed to the managing agent.

The Syndicate did not renew its binding authority agreements with Endurance Underwriting Inc. ("EUI") but the 2015 contract was extended for six months. EUI is incorporated in the U.S. which is a wholly-owned indirect subsidiary of ESHL. Gross premiums written under these agreements amounted to £nil (2015 – £6.4m) in respect of which the Syndicate paid commissions to EUI of £nil (2015 – £0.9m). As at the year end other creditors included £nil (2015 – £1.1m) in respect of amounts owed to EUI.

During 2016 the Syndicate entered a quota share arrangement with Endurance American Insurance Company ("EAIC"), a wholly owned subsidiary of ESHL, and assumed £6.0m of gross written premium covering losses on US agriculture crop risks under this contract. At the year end the amount due from EAIC amounted to £1.2m.

Endurance Services Ltd ("ESL"), a wholly-owned indirect subsidiary of ESHL incorporated in the US, charged the Syndicate £4.6m for certain administrative services (2015 – £1.7m) during the period. As at the year end other creditors included £0.6m (2015 - £nil) in respect of amounts owed to ESL. ESHL charged the Syndicate £0.8m (2015 - £nil) during the period and at the year end other creditors included £0.2m (2015 - £nil) in respect of amounts owed to ESHL in relation to services.

Effective from 1st September 2016, the London staff that supported the syndicate's activities were transferred from EWIL to EBSL. The services provided by EBSL, and previously EWIL, to the syndicate are reimbursed through a recharge of costs. In 2016, costs recharged from EWIL to the Syndicate amounted to £7.6m (2015 - £9.8m) and costs from EBSL amounted to £4.1m (2015 - £11.1m). As at the year end other creditors included £0.9m (2015 - £1.3m) in respect of amounts owed to EWIL, and £1.6m (2015 - £nil) in respect of amounts owed to EBSL in relation to these services.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management

a) Governance framework

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

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

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

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. Although the capital regime has changed, this has not significantly impact the Solvency Capital requirement of the syndicate, since this has been previously calculated based on Solvency II principles, as described below.

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence 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 5151 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 and approval by Lloyd's. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement,

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

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

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.

c) Insurance risk management

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

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

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

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

(i) Concentrations of insurance risk

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

c) Insurance risk management (continued)

(i) Concentrations of insurance risk (continued)

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

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

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

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

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

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

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

	2016	2015
	£'000	£'000
UK	2,430	2,137
Other EU countries	11,159	10,524
US and Canada	66,418	48,509
Worldwide	155,554	114,149
	<u>235,561</u>	<u>175,319</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

d) Insurance risk management (continued)

(i) Concentrations of insurance risk (continued)

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

	2016	2015
	£'000	£'000
Property (includes Engineering in 2016)	57,247	53,364
Marine & Energy	64,184	46,809
Specialty	67,812	63,634
Professional Lines	46,318	-
Engineering	-	11,512
	<u>235,561</u>	<u>175,319</u>

From 1st January, 2016 management has assessed the classification of the lines of business it writes in accordance with how it manages the business, and with the submitted Syndicate Business Forecast. This differs from prior period classifications which were determined by prior management.

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

	Gross liabilities	Reinsurance of liabilities	Net liabilities
	£'000	£'000	£'000
2016			
Property & Engineering	106,201	(38,585)	67,616
Marine & Energy	72,302	(30,551)	41,751
Specialty	37,295	(15,642)	21,653
Professional Lines	88,408	(29,811)	58,597
	<u>304,206</u>	<u>(114,589)</u>	<u>189,617</u>
	Gross liabilities Restated	Reinsurance of liabilities	Net liabilities Restated
	£'000	£'000	£'000
2015			
Property	53,781	(17,937)	35,844
Marine & Energy	58,696	(20,140)	38,556
Specialty	91,225	(26,358)	64,867
Engineering	40,591	(11,531)	29,060
	<u>244,293</u>	<u>(75,966)</u>	<u>168,327</u>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

- c) Insurance risk management (continued)
- (ii) Sensitivity to insurance risk

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

- c) Insurance risk management (continued)
- (ii) Sensitivity to insurance risk (continued)

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

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

Profitability may be adversely impacted by inflation.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

c) Insurance risk management (continued)

(ii) Sensitivity to insurance risk (continued)

Quantitative sensitivity analysis

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

	Change in assumption	Impact on gross liabilities £'000	Impact on net liabilities £'000	Impact on profit £'000	Impact on members' balances £'000
2016					
Loss ratio	+ 10%	13,900	6,647	(6,647)	(6,647)
2015					
Loss ratio	+ 10%	8,623	5,415	(5,415)	(5,415)

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive pure year of account at each reporting date, together with cumulative payments to date.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

c) Insurance risk management (continued)

(ii) Sensitivity to insurance risk (continued)

Claims development table

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

Pure year of account	Pre-2011 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Estimate of cumulative claims incurred								
At end of underwriting year		103,394	51,344	48,377	60,593	43,849	73,418	
One year later		124,790	83,678	87,477	106,295	120,644		
Two years later		114,756	77,071	91,276	119,921			
Three years later		114,839	80,021	88,638				
Four years later		117,599	84,141					
Five years later		121,341						
Estimate for cumulative claims		121,341	84,141	88,638	119,921	120,644	73,418	
Cumulative payments to date		(100,321)	(55,269)	(54,823)	(65,925)	(38,813)	(11,556)	
Claims outstanding per balance sheet	22,810	21,020	28,872	33,815	53,996	81,831	61,862	304,206

Certain amounts in the prior period triangles have been amended to correctly reflect the claims incurred by pure year of account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

c) Insurance risk management (continued)

(ii) Sensitivity to insurance risk (continued)

Claims development table

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

Pure year of account	Pre-2011 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Estimate of cumulative claims incurred								
At end of underwriting year		89,431	35,299	32,971	35,909	28,204	31,974	
One year later		101,744	57,924	60,492	66,159	74,688		
Two years later		89,665	52,662	62,476	70,944			
Three years later		85,414	55,700	59,877				
Four years later		85,168	58,439					
Five years later		87,665						
Estimate for cumulative claims		87,665	58,439	59,877	70,944	74,688	31,974	
Cumulative payments to date		(72,253)	(38,410)	(37,241)	(36,134)	(24,516)	(5,173)	
Claims outstanding per balance sheet	19,757	15,412	20,029	22,636	34,810	50,172	26,801	189,617

Certain amounts in the prior period triangles have been amended to correctly reflect the claims incurred by pure year of account.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

d) Financial risk management

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

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

Credit risk

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

d) Financial risk management (continued)

Credit risk (continued)

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

	AAA £'000	AA £'000	A £'000	Other/ Not rated £'000	Total £'000
At 31 December 2016					
Reinsurance debtors and reinsurers' share of claims outstanding	-	4,387	137,330	1,225	142,942
Debtors arising out of direct insurance operations	-	-	-	80,719	80,719
Debtors from ceding insurers and intermediaries	-	-	-	19,088	19,088
Debt and other fixed income securities	92,643	9,731	12,685	506	115,565
Holdings in collective investment schemes	3,234	-	2,535	-	5,769
Cash	7,910	311	29,867	-	38,088
Overseas deposits	12,664	3,824	2,036	1,211	19,735
Total	116,451	18,253	184,453	102,749	421,906
	AAA £'000	AA £'000	A £'000	Other/ Not rated £'000	Total Restated £'000
At 31 December 2015					
Reinsurance debtors and reinsurers' share of claims outstanding	-	1,035	90,242	1,887	93,164
Debtors arising out of direct insurance operations	-	-	-	50,738	50,738
Debtors from ceding insurers and intermediaries	-	-	-	10,354	10,354
Debt and other fixed income securities	26,094	51,391	40,673	11,856	130,014
Holdings in collective investment schemes	5,913	-	4,303	-	10,216
Cash	1,616	-	14,845	-	16,461
Overseas deposits	-	-	17,549	-	17,549
Total	33,623	52,426	167,612	74,835	328,496

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

In addition, collateral is held in trust in respect of debtors outstanding on a quota share between the Syndicate and ESIL. This includes debt securities and cash and cash equivalents that are held with The Bank of New York Mellon, with a fair value of £63.3m (2015 – £34.2m) as at 31 December 2016.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

d) Financial risk management (continued)

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

As at 31 December 2016	Neither past due			Total £'000
	nor impaired £'000	Past due £'000	Impaired £'000	
Reinsurance debtors and reinsurers' share of claims outstanding	142,942	-	-	142,942
Debtors arising out of direct insurance operations	72,008	8,711	-	80,719
Debtors from ceding insurers and intermediaries	19,088	-	-	19,088
Debt and other fixed income securities	115,565	-	-	115,565
Holdings in collective investment schemes	5,769	-	-	5,769
Cash	38,088	-	-	38,088
Overseas deposits	19,735	-	-	19,735
	413,195	8,711	-	421,906

As at 31 December 2015	Neither past due			Total Restated £'000
	nor impaired £'000	Past due £'000	Impaired £'000	
Reinsurance debtors and reinsurers' share of claims outstanding	93,164	-	-	93,164
Debtors arising out of direct insurance operations	49,646	1,435	(343)	50,738
Debtors from ceding insurers and intermediaries	10,354	-	-	10,354
Debt and other fixed income securities	130,014	-	-	130,014
Holdings in collective investment schemes	10,216	-	-	10,216
Cash	16,461	-	-	16,461
Overseas deposits	17,549	-	-	17,549
	327,404	1,435	(343)	328,496

Financial assets that are neither past due nor impaired

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

Financial assets that are either past due or impaired

Of the amounts arising from insurance and reinsurance operations £8.7m (2015 - £1.4m) are past due as at the balance sheet date, of which £6.2m (2015 - £0.9m) are aged less than 6 months and £2.5m (2015 - £0.5m) are aged more than 6 months. These amounts are unsecured.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

d) Financial risk management (continued)

Market risk

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

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

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

Interest rate risk

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

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

At 31 December 2016	GBP'000
Change in interest rates (Basis points)	
+100 bps	(2,181)
+50 bps	(1,094)
-50 bps	866
-100 bps	1,609

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

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

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

Currency risk

The Syndicate operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar from 1st January 2016, in line with the change in functional currency from that date from Sterling, Canadian Dollar and the Euro, along with Japanese Yen and Australian Dollar which have been added as settlement currencies during 2016. The Syndicate mitigates currency risk by endeavouring to maintain a match of assets and liabilities in their respective currencies.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

d) Financial risk management (continued)

Currency risk (continued)

The table below show the potential impact, by currency to US Dollar in 2016 and Sterling in 2015, on profit and loss and equity resulting from fluctuations in foreign exchange rates:

At 31

December

2016	GBP £'000	USD £'000	CAD £'000	Euro £'000	Yen £'000	Aus\$ £'000	Total £'000
+ 10%	3,625	-	(921)	(106)	205	(51)	2,752
+ 5%	1,899	-	(482)	(55)	107	(27)	1,442
- 5%	(2,099)	-	533	61	(118)	29	(1,594)
- 10%	(4,431)	-	1,125	129	(250)	62	(3,365)

At 31

December

2015	GBP £'000	USD £'000	CAD £'000	Euro £'000	Yen £'000	Aus\$ £'000	Total £'000
+ 10%	-	3,120	(650)	(909)	-	-	1,561
+ 5%	-	1,634	(340)	(476)	-	-	818
- 5%	-	(1,806)	376	526	-	-	(904)
- 10%	-	(3,814)	794	1,112	-	-	(1,908)

Price risk

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

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

Liquidity risk

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

The Syndicate is exposed to daily calls on its available cash resources, principally from claims arising from its insurance activities. The average duration of insurance contract liabilities is 1.85 years (2015 - 1.97 years). The Syndicate's policy is to manage its liquidity position so that it can reasonably meet a significant individual or market loss event. This means that the Syndicate maintains sufficient liquid assets, or assets that can be quickly converted into liquid assets, without any significant capital loss, to meet estimated cash flow requirements. These liquid funds are regularly monitored and the majority of the Syndicate's investments are in highly liquid assets which could be converted into cash in a short time frame and at minimal expense. Cash and overseas deposits are generally bank deposits and money market funds.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2016

23. Risk management (continued)

e) Financial risk management (continued)

Liquidity risk (continued)

The table below summaries the maturity profile of the Syndicate's financial liabilities based on the remaining undiscounted contractual obligations, including interest payable.

At 31 December 2016	0-1 year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Total £'000
Claims outstanding	128,496	115,306	39,350	21,054	304,206
Creditors	88,862	-	-	-	88,862
Total	217,358	115,306	39,350	21,054	393,068
At 31 December 2015	0-1 year £'000	1-3 years £'000	3-5 years £'000	>5 years £'000	Total £'000
Claims outstanding	103,550	89,168	32,975	18,600	244,293
Creditors	54,323	-	-	-	54,323
Total	157,873	89,168	32,975	18,600	298,616

24. Post Balance Sheet events

On February 27, 2017, the UK Ministry of Justice announced a cut in the Ogden Discount Rate ("ODR") from 2.5% to -0.75%. The ODR is the discount rate applied to lump-sum personal injury payments to claimants and is expected to increase lump sum awards for bodily injury claims calculated with reference to Ogden table rates relative to Periodic Payment Orders ("PPOs"). The Syndicate has limited exposure to this event within Employers' Liability and Motor Excess of Loss lines of business and as a result considers this to be an immaterial impact.