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StarStone Syndicate 1301

Annual Report and
Financial Statements
For the year ended 31 December 2017



Table of Contents

Directors and administration.....	2
Report of the directors of the managing agent.....	4
Statement of managing agent's responsibilities.....	8
Independent auditor's report to the members of Syndicate 1301.....	9
Income Statement - Technical account.....	11
Income Statement - Non-technical account.....	12
Statement of Financial Position – Assets.....	13
Statement of Financial Position – Liabilities.....	14
Statement of Changes in Members' Balances.....	15
Statement of cash flows.....	16
Notes.....	17

Directors and Administration

Managing Agent

StarStone Underwriting Limited

Directors

The directors named below held office for the period 1 January 2017 to 31 December 2017.

E Gilmour (Chairman and Non-Executive)

A Cliff

R Delhaise

T Fillingham (Chief Executive Officer, appointed 1 March 2017)

R Grainger

D Smith

D Truman

S Urry (Appointed 12 October 2017)

J Wardrop (Non-Executive)

Former directors who served during the year

N Barton (Non-Executive, Resigned 31 December 2017)

D Message (Resigned 31 December 2017)

R Phinn (Resigned 21 July 2017)

Directors and Administration (continued)

Managing agent's secretary

C Traxler

S Hextall

Managing agent's registered office

88 Leadenhall Street

London, EC3A 3BP

United Kingdom

Managing agent's registered number

08039754

Syndicate

Active underwriter

S Urry

Bankers

CitiBank, Barclays, Royal Bank of Canada

Investment manager

Goldman Sachs

Registered auditor

KPMG LLP

Directors' interests

None of the Directors of the managing agent have any participation in the Syndicate's premium income capacity.

Report of the directors of the managing agent

The directors of StarStone Underwriting Limited, the managing agent for Syndicate 1301 ("the Syndicate"), present their report for the year ended 31 December 2017.

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

Results

The result for Syndicate 1301 for the year ended 31 December 2017 is a loss of £43.0 million (2016: £13.9 million profit). The Syndicate's key financial performance indicators during the year were as follows:

	2017 £'m	2016 £'m
Gross written premium	235.6	208.9
Gross premiums earned	215.4	208.1
Net premiums earned	150.8	181.6
Profit/(Loss) for the financial year	(43.0)	13.9
Claims ratio	98.4%	56.6%
Commission ratio	21.9%	23.7%
Expense ratio	14.4%	15.7%
Combined ratio	134.6%	96.0%

Principal activities

The Syndicate's principal activity during the year continued to be the transaction of general insurance and reinsurance business in the United Kingdom at Lloyd's of London. Syndicate 1301 underwrites a mixture property, casualty, reinsurance and specialty lines of business. Syndicate 1301 trades through the Lloyd's worldwide licenses and rating platform. It also benefits from the Lloyd's brand. Lloyd's has an A (Excellent) rating from A.M. Best, A+ (Strong) rating from Standard & Poor's and AA- (Very Strong) rating from Fitch.

Report of the directors of the managing agent (continued)

Business review

2017 continued to present a challenging market environment and the Syndicate performance was adversely impacted by the impact of hurricanes Harvey, Irma and Maria together with some increases in attritional claims. The impact of the hurricanes and the higher than expected attritional claims has resulted in a claims ratio of 98.4% compared to 56.6% in 2016. We continue to focus on underwriting discipline, pricing for profitability rather than scale and we have the discipline to decline business which is priced inadequately.

Gross Written Premium ('GWP') increased to £235.6m from £208.9m for 2016. Premium growth in the Syndicate has mainly come from the marine lines of business with new business being sourced through StarStone's Joint venture in Hong Kong and as a result of a revised marine strategy in our European Office network now yielding results. Additional premium has also been sourced from our office in Australia, which was established in 2016 and began introducing business to our London underwriting teams in 2017.

For 2017 the Syndicate was authorised to start writing Directors and Officers business. Premium volumes for 2017 were not material.

From 1 January 2017 the Syndicate entered into a Quota Share Treaty with KaylaRe Ltd. pursuant to which Kayla Re Ltd. reinsures 35% of certain business written by the Syndicate on the 2017 year of account. 48.4% of KaylaRe's common shares are owned by Enstar Group Limited, the Syndicate's ultimate parent company.

On 5 February 2018, Enstar Group Limited, announced that it had signed an agreement to acquire full ownership of KaylaRe. The transaction is subject to regulatory approval and is expected to close during the first quarter of 2018.

As a result of the quota share treaty with KaylaRe net earned premium income has reduced by £30.8m during the year to £150.8m.

The expense ratio has reduced to 14.4% in 2017 compared to 15.7% for 2016. We remain focused on expense management and the reduction in the expense ratio has benefited from actions taken during the year. There was a reduction in the acquisition cost ratio to 21.9% compared to 23.7% in 2016 and this is mainly due to additional over-rider commission arising from Kayla Re quota share contract.

We protect our capital from extreme downside risk and managed our overall risk profile through the purchase of reinsurance in 2017. The Syndicate entered into a quota share treaty from 1 January 2017 with Kayla Re Ltd which reinsured 35% of the business for the 2017 year of account and subsequent years of account.

Business profile

StarStone Syndicate 1301 is a global specialty underwriter focused on London Wholesale Market Business, European Retail Business and US Retail Business through both the Syndicate and StarStone's wholly owned service companies in Europe, Australia and the US.

The capacity for the 2018 underwriting year is £215.9m. Our Underwriters remain focused on maintaining rate adequacy rather than writing to hit GWP targets. We will continue to focus on expense and acquisition cost management.

We offer a broad range of property, casualty and specialty insurance products to both large multi-national and small and middle-market clients around the world. Our main product groupings are as follows:-

Report of the directors of the managing agent (continued)

Casualty

This segment includes StarStone's excess casualty, global healthcare, and accident and health products. The reporting segment includes a book of high excess casualty written in the London wholesale market but focused on high excess layers for Fortune 500 companies. Our Healthcare product provides insurance for acute care centres, nursing homes, small hospitals, physician groups, senior living facilities, and others. The Accident and Health product provides protection for a broad range of groups and individuals, including air crew personal accident and loss of license, accidental death and permanent and temporary disability for individuals including for athletes and high net worth individuals. From 2017 Directors and Officers business has also been added.

Marine

This reporting segment offers a broad range of marine and specialty products including hull and machinery, marine and energy liabilities, cargo, war, transport, specie and fine art, and terrorism. These products are written through Lloyd's Syndicate 1301, directly, by our European branch network and by some of our U.S. based teams.

Property

This reporting segment includes all our property insurance lines. The construction portfolio, focuses on large, complex, infrastructure and contractor cover across all risk areas. The segment also includes our onshore, power, and upstream and offshore product offering. Most lines are written on a full value, primary, excess of loss or quota share basis.

Aerospace

This segment serves a diverse client base within the General Aviation segment and some limited Airline and Products business.

- During 2017 we continued to see pressure on rates across the board particularly in the London Wholesale business lines, however, we expect to see an improvement in rates during 2018.

Risk review

A description of the principal risks and uncertainties facing the Syndicate is set out in the notes to the financial statements (risk review).

Future developments

The intention of the board is to continue being innovative whilst pursuing profitable business and maintaining underwriting discipline.

Report of the directors of the managing agent (continued)

Directors

None of the Directors of the managing agent who served during the year ended 31 December 2017 were underwriting Names on the Syndicate for the 2015, 2016 or 2017 years of account.

The current directors of the managing agent are set out on page 2.

Auditor

Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Disclosure of information to auditor

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

Syndicate Meeting

The managing agent confirms that it does not propose to hold an annual general meeting of the members of the Syndicate.



T Fillingham

Chief Executive Officer

For and on behalf of the board

14 March 2018

Statement of managing agent's responsibilities

The directors of the managing agent are responsible for preparing the Syndicate financial statements in accordance with applicable law and regulations.

Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicates financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period.

In preparing the Syndicate financial statements, the directors of the managing agent are required to:

- select suitable accounting policies and then apply them consistently;
- 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 the financial statements; and
- prepare the financial statements assuming there are no uncertainties surrounding the Syndicate's ability to continue to write business in the future as required to provide a true and fair view.

The directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors of the managing agent are responsible for the maintenance and integrity of the Syndicate and financial information included on the Syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



T Fillingham

Chief Executive Officer

For and on behalf of the board

14 March 2018

Independent auditor's report to the members of Syndicate 1301

Opinion

We have audited the annual accounts of Syndicate 1301 for the year ended 31 December 2017 which comprise the Income Statement: Technical account – General Business, Income Statement - Non-technical account, Statement of Financial Position – Assets, Statement of Financial Position – Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

Report of the directors of the Managing Agent

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

Independent auditor's report to the members of Syndicate 1301 (Continued)

Matters on which we are required to report by exception

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Managing Agent's Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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



David Maddams (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
14 March 2018

Income Statement: Technical account – General Business

For the year ended 31 December 2017

	Note	2017		2016	
		£'000	£'000	£'000	£'000
Earned premiums, net of reinsurance					
Gross premiums written	5	235,570		208,862	
Outwards reinsurance premiums		(93,385)		(29,321)	
			142,185		179,541
Change in the provision for unearned premiums					
Gross amount	16	(20,205)		(744)	
Reinsurers' share		28,870		2,841	
			8,665		2,097
			150,850		181,638
Allocated investment return transferred from the non-technical account					
	10		1,277		1,186
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(118,884)		(71,329)	
Reinsurers' share		11,037		5,687	
			(107,847)		(65,642)
Change in the provision for claims					
Gross amount	16	(84,138)		(39,847)	
Reinsurers' share		43,600		2,757	
			(40,538)		(37,090)
Net operating expenses					
	7		(54,659)		(71,568)
Balance on the technical account – general business					
			(50,917)		8,524

All operations relate to continuing activities.

The notes on pages 17 to 49 form an integral part of these financial statements.

Income Statement - Non-technical account

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Balance on the technical account – general business		(50,917)	8,524
Investment income	10	1,252	1,306
Unrealised gains on investments	10	1,347	1,867
Investment expenses and charges	10	(49)	(63)
Unrealised losses on investments	10	(1,273)	(1,924)
Allocated investment return transferred to technical account	10	(1,277)	(1,186)
Gain on foreign exchange		7,872	5,402
Profit/(Loss) for the financial year		(43,045)	13,926

All operations relate to continuing activities.

There are no items of other comprehensive income in the accounting period, therefore no statement of other comprehensive income has been presented.

The notes on pages 17 to 49 form an integral part of these financial statements.

Statement of Financial Position – Assets

As at 31 December 2017

	Note	2017		2016	
		£'000	£'000	£'000	£'000
Investments					
Other financial investments	11		94,132		120,117
Reinsurers' share of technical provisions					
Provision for unearned premiums	16	40,576		13,842	
Claims outstanding		68,110		27,669	
			108,686		41,511
Debtors					
Debtors arising out of direct insurance operations	12	90,961		100,160	
Debtors arising out of reinsurance operations	13	33,202		27,466	
Other debtors		18,475		6,368	
			142,638		133,994
Other assets					
Cash at bank and in hand	18	37,886		14,256	
			37,886		14,256
Prepayments and accrued income					
Accrued interest		299		355	
Deferred acquisition costs	14	24,292		22,317	
Other prepayments and accrued income		-		480	
			24,591		23,152
Total assets			407,933		333,030

The notes on pages 17 to 49 form an integral part of these financial statements.

Statement of Financial Position – Liabilities

As at 31 December 2017

	Note	2017		2016	
		£'000	£'000	£'000	£'000
Capital and reserves					
Members' balances			(47,240)		4,769
Technical provisions					
Provision for unearned premiums		101,823		96,931	
Claims outstanding		273,460		203,717	
	16		375,283		300,648
Creditors					
Creditors arising out of direct insurance operations		10,934		7,360	
Creditors arising out of reinsurance operations		51,766		10,987	
Other creditors		8,271		6,842	
	17		70,971		25,189
Accruals and deferred income			8,919		2,424
Total liabilities and equity			407,933		333,030

The notes on pages 17 to 49 form an integral part of these financial statements.

The Syndicate financial statements on pages 11 to 49 were approved by the board of StarStone Underwriting Limited on 14 March 2018 and were signed on its behalf by:



T Fillingham
 Chief Executive Officer
 14 March 2018

Statement of Changes in Members' Balances

For the year ended 31 December 2017

	2017	2016
	£000	£000
Members' balances brought forward at 1 January	4,769	(3,143)
(Loss)/Profit for the year	(43,045)	13,926
Payments of profit to members' personal reserve fund	(9,473)	(5,901)
Exchange difference	509	(113)
Members' balances carried forward at 31 December	(47,240)	4,769

The notes on pages 17 to 49 form an integral part of these financial statements.

Members participate on Syndicates by reference to years of account (YOA) 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 Cash Flows

For the year ended 31 December 2017

	Note	2017		2016	
		£'000	£'000	£'000	£'000
Cash flows from operating activities:					
Profit for the year		(43,045)		13,926	
<i>Adjustments:</i>					
Increase in technical provisions		74,635		85,764	
Increase in reinsurers share of technical provisions		(67,175)		(10,540)	
Increase in debtors, subrogation and salvage and prepayments		(1,922)		(58,495)	
Increase in creditors		44,060		9,489	
Net interest and dividends receivable		(1,278)		(1,186)	
Foreign exchange losses/(gains)		2,144		(9,026)	
Net cash inflow from operating activities			7,419		29,932
Cash flows from investing activities:					
Acquisitions of financial instruments		(32,921)		(58,994)	
Proceeds from sale of financial instruments		55,053		52,896	
Interest received		1,340		1,434	
Decrease/(Increase) in deposits with credit institutions		758		(1,948)	
Increase in overseas deposits		(702)		(1,449)	
Foreign exchange losses/(gains)		5,897		(8,862)	
Net cash inflow/(outflow) from investing activities			29,425		(16,923)
Cash flow from financing activities:					
Transfer to members in respect of underwriting participations		(9,473)		(5,901)	
Net cash outflow from financing activities			(9,473)		(5,901)
Net increase in cash and cash equivalents			27,371		7,108
Cash and cash equivalents at 1 January			62,652		46,405
Effect of exchange rate changes on cash and cash equivalents			(2,653)		9,139
Cash and cash equivalents at 31 December	18		87,370		62,652

The notes on pages 17 to 49 form an integral part of these financial statements.

Notes (forming part of the financial statements)

1. Basis of preparation

Syndicate 1301 ('The Syndicate') comprises a group of members of the Society of Lloyds that underwrites insurance business in the London Market. The address of the syndicate's managing agent is 88 Leadenhall Street, Street, and London, EC3A 3BP.

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014, and Financial Reporting Standard 103 Insurance Contracts ("FRS 103") as issued in March 2014.

The financial statements have been prepared on the historical cost basis, except for financial assets which have been recorded at fair value through the statement of profit or loss.

The financial statements are presented in Pound Sterling ("GBP"), which is the Syndicate's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2. Use of judgements and estimates

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The measurement of the provision for claims outstanding involves judgments and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgment is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

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

In arriving at the level of claims provisions no margin is applied over and above the actuarial best estimate. Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in note 4.

Notes (continued)

3. Significant accounting policies

The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the Syndicate's financial statements.

Premiums written

Premiums written comprise premiums on contracts inception during the financial year as well as adjustments made in the year to premiums written in prior accounting periods. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified. Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured. They are disclosed gross of commissions and profit participations recoverable from reinsurers.

Unearned premiums

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent financial periods, computed separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract.

Acquisition costs

Costs incurred in acquiring general insurance contracts are deferred. Acquisition costs include direct costs such as brokerage and commission, and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies. The deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the balance sheet date.

Claims provisions and related recoveries

Claims incurred comprise claims and claims handling expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses.

Outstanding claims include an allowance for the cost of claims incurred by the balance sheet date but not reported until after the year end (IBNR). Anticipated salvage and subrogation and other recoveries are recognised as other assets.

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

Reinsurance assets are assessed for impairment at each balance sheet date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Syndicate may not recover all amounts due, and that event has a reliably measurable impact on the amount that the Syndicate will receive from the reinsurer. Impairment losses are recognised in profit or loss in the period in which the impairment loss is recognised.

Notes (continued)

3. Significant accounting policies (continued)

Unexpired risks provision

Provision is made for unexpired risks arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the balance sheet date exceeds the unearned premiums provision in relation to such policies (after the deduction of any deferred acquisition costs). The provision for unexpired risks is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and unexpired claims provisions.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items. Differences arising on translation of foreign currency amounts relating to the insurance operations of the Syndicate are included in the non-technical account.

Financial assets and liabilities

In applying FRS 102, the Syndicate has chosen to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* (as adopted for use in the EU).

Classification

The accounting classification of financial assets and liabilities determines the way in which they are measured and changes in those values are presented in the income statement. Financial assets and liabilities are classified on their initial recognition. Subsequent reclassifications are permitted only in restricted circumstances.

Financial assets and financial liabilities at fair value through profit and loss comprise financial assets and financial liabilities held for trading and those designated as such on initial recognition. Investments in shares and other variable yield securities, units in unit trusts, and debt and other fixed income securities are designated as at fair value through profit or loss on initial recognition, as they are managed on a fair value basis in accordance with the Syndicate's investment strategy.

Deposits with credit institutions, debtors, and accrued interest are classified as loans and receivables.

Recognition

Financial instruments are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Syndicate's contractual rights to the cash flows from the financial assets expire or if the Syndicate transfers the financial asset to another party without retaining control of substantially all risks and rewards of the asset. A financial liability is derecognised when its contractual obligations are discharged, cancelled, or expire.

Purchases and sales of financial assets are recognised and derecognised, as applicable, on the trade date, i.e. the date that the Syndicate commits itself to purchase or sell the asset.

Notes (continued)

3. Significant accounting policies (continued)

Measurement

Financial assets at fair value through profit or loss are measured at fair value with fair value changes recognised immediately in profit or loss. Net gains or net losses on financial assets measured at fair value through profit or loss includes foreign exchange gains/losses arising on their translation to the functional currency, but excludes interest and dividend income.

Identification and measurement of impairment

At each reporting date the Syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Syndicate about any significant financial difficulty of the issuer, or significant changes in the technological, market, economic or legal environment in which the issuer operates.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost the reversal is recognised in profit or loss.

Off-setting

Financial assets and financial liabilities are set off and the net amount presented in the balance sheet when, and only when, the Syndicate currently has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Investment return

Investment income comprises interest income, dividends receivable and realised investment gains. Investment return comprises investment income and movements in unrealised gains and losses on financial instruments at fair value through profit or loss, less investment management expenses, interest payable, realised losses and impairment losses.

FRS 103 Glossary

For investments at fair value through profit or loss, realised gains and losses represent the difference between the net proceeds on disposal and the purchase price. For investments measured at amortised cost, realised gains and losses represents the difference between the net proceeds on disposal and the latest carrying value (or if acquired after the last reporting date, the purchase price).

Unrealised gains and losses on investments represent the difference between the fair value at the balance sheet date and their purchase price. Movements in unrealised investment gains and losses comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals in the current period, or the valuation at the beginning of the year; as well as the reversal of previously recognised unrealised gains and losses in respect of investments disposed of in the current period.

Notes (continued)

3. Significant accounting policies (continued)

Investment return is initially recorded in the non-technical account. The return is transferred in full to the general business technical account to reflect the investment return on funds supporting underwriting business.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

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 (currently at 20%) 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.

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 year have been included in the balance sheet under the heading 'other debtors'.

No provision has been made for any other overseas tax payable by members on underwriting results.

Pension costs

StarStone Group operates a defined contribution scheme. Pension contributions relating to Syndicate staff are charged to the Syndicate as incurred and are included within net operating expenses.

Profit commission

The managing agent does charge profit commission to qualifying quota share participants.

4. Risk and capital management

Introduction and overview

This note presents information about the nature and extent of insurance and financial risks to which the Syndicate is exposed, the Managing Agent's objectives, policies and processes for measuring and managing insurance and financial risks, and for managing the Syndicate's capital.

Risk management framework

The Board of Directors of the Managing Agent has overall responsibility for the establishment and oversight of the Syndicate's risk management framework. The Board has established a Risk Committee to oversee the operation of the Syndicate's risk management framework and to review and monitor the management of the risks to which the Syndicate is exposed. The Risk Committee has delegated oversight of the management of aspects of insurance risks to the StarStone Underwriting and Reserving Committees, which are responsible for developing and monitoring insurance risk management policies, and the management of aspects of financial risks to the StarStone Investment Committee, which is responsible for developing and monitoring financial risk management policies.

Notes (continued)

4. Risk and capital management (continued)

The Risk Committee reports regularly to the Board of Directors on its activities. The StarStone Underwriting and Reserving Committees and the StarStone Investment Committee report regularly to the Risk Committee on their activities.

The risk management policies are established to identify and analyse the risks faced by the Syndicate, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Management of insurance risk

A key component of the management of underwriting risk for the Syndicate is a disciplined underwriting strategy that is focused on writing quality business and not writing for volume. Product pricing is designed to incorporate appropriate premiums for each type of assumed risk. The underwriting strategy includes underwriting limits on the Syndicate's total exposure to specific risks together with limits on geographical and industry exposures. The aim is to ensure a well-diversified book is maintained with no over exposure in any one geographical region.

Contracts can contain a number of features which help to manage the underwriting risk such as the use of deductibles, or capping the maximum permitted loss, or number of claims (subject to local regulatory and legislative requirements)

The Syndicate makes use of reinsurance to mitigate the risk of incurring significant losses linked to one event, including excess of loss, stop loss and catastrophe reinsurance. Where an individual exposure is deemed surplus to the Syndicate's appetite additional facultative reinsurance is also purchased.

The StarStone Underwriting and Reserving Committees oversees the management of reserving risk. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the review of claims development are all instrumental in mitigating reserving risk.

The Syndicate Managing Agent's in house actuaries perform a reserving analysis on an annual basis liaising closely with underwriters, claims and reinsurance technicians. The aim of this exercise is to produce a probability-weighted average of the expected future cash outflows arising from the settlement of incurred claims. These projections include an analysis of claims development compared to the previous 'best estimate' projections. The output of the reserving analysis is reviewed by external consulting actuaries.

The StarStone Underwriting and Reserving Committees perform a comprehensive review of the projections, both gross and net of reinsurance. Following this review the StarStone Underwriting and Reserving Committees make recommendations to the Risk Committee and the Managing Agent's Board of Directors of the amount of claims provisions to be established.

Notes (continued)

4. Risk and capital management (continued)

Concentration of insurance risk

The Syndicate's exposure to insurance risk is well diversified. The following table provides an analysis of the geographical breakdown of its written premiums by class of business.

Year 2017	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Miscellaneous	Reinsurance	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£000
UK	(42)	94	130	7	-	120	309
France	(52)	217	2,400	-	-	53	2,618
Germany	-	72	38	-	-	5	115
Other Europe	169	2,818	501	19	217	4,287	8,011
US	1,802	1,650	21,723	5,413	285	5,063	35,936
Other	6,356	74,378	36,352	9,665	2,728	59,102	188,581
Total	8,233	79,229	61,144	15,104	3,230	68,630	235,570

Year 2016	Accident and Health	Marine, aviation and transport	Fire and other damage to property	Third party liability	Miscellaneous	Reinsurance	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£000
UK	350	95	1,533	42	3	101	2,124
France	3	51	2,146	-	-	172	2,372
Germany	-	-	(42)	-	-	3	(39)
Other Europe	1,233	1,774	483	-	27	6,544	10,061
US	1,086	2,619	15,928	4,802	125	4,912	29,472
Other	6,468	62,847	34,902	7,841	1,244	51,570	164,872
Total	9,140	67,386	54,950	12,685	1,399	63,302	208,862

Notes (continued)

4. Risk and capital management (continued)

Sensitivity to insurance risk

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being underwritten and can arise from developments in case reserving for large losses and catastrophes, or from changes in estimates of claims incurred but not reported (IBNR). A five per cent increase or decrease in the ultimate cost of settling claims arising is considered to be reasonably possible at the reporting date.

A five per cent increase or decrease in total claims liabilities would have the following effect on profit or loss and equity:

Year 2017	2017		2016	
	5 per cent increase	5 per cent decrease	5 per cent increase	5 per cent decrease
	£'000	£'000	£'000	£'000
Accident and health	(277)	277	(327)	327
Marine, aviation and transport	(5,095)	5,095	(4,866)	4,866
Fire and other damage to property	(3,977)	3,977	(2,807)	2,807
Third party liability	(880)	880	(771)	771
Miscellaneous	(39)	39	(31)	31
Total	(10,268)	10,268	(8,802)	8,802

Financial risk

The focus of financial risk management for the Syndicate is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance contracts. The goal of the investment management process is to optimise the risk-adjusted investment income and risk-adjusted total return by investing in a diversified portfolio of securities, whilst ensuring that the assets and liabilities are managed on a cash flow and duration basis.

Credit risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation.

The Syndicate is exposed to credit risk in respect of the following:

- debt securities;
- reinsurers' share of insurance liabilities;
- amounts due from intermediaries;
- amounts due from reinsurers in respect of settled claims;
- cash and cash equivalents; and
- other debtors and accrued interest.

Notes (continued)

4. Risk and capital management (continued)

Credit risk (continued)

The nature of the Syndicate's exposures to credit risk and its objectives, policies and processes for managing credit risk have not changed significantly from the prior year.

Management of credit risk

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. Financial assets are graded according to current credit ratings issued by rating agencies such as Standard and Poor's. The Syndicate has a policy of investing mainly in government issued and government backed debts. The Syndicate does not currently invest new monies in speculative grade assets (i.e. those rated below BBB).

The Syndicate limits the amount of cash and cash equivalents that can be deposited with a single counterparty, and maintains an authorised list of acceptable cash counterparties.

The Syndicate's exposure to intermediaries and reinsurance counterparties is monitored by the individual business units as part of their credit control processes. All intermediaries must meet minimum requirements established by the Syndicate. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

The Syndicate assesses the creditworthiness of all reinsurers by reviewing public rating information and by internal investigations. The impact of reinsurer default is regularly assessed and managed accordingly.

Exposure to credit risk

The carrying amount of financial assets and reinsurance assets represents the maximum credit risk exposure. The Syndicate does not hold any collateral as security or purchase any credit enhancements (such as guarantees, credit derivatives and netting arrangements that do not qualify for offset).

Notes (continued)

4. Risk and capital management (continued)

Exposure to credit risk (continued)

The following table analyses the credit rating by investment grade of financial investments, reinsurers' share of claims outstanding, debtors arising out of direct insurance and reinsurance operations, cash at bank and in hand, and other debtors and accrued interest that are neither past due, nor impaired.

Year 2017 Total	AAA £'000	AA £'000	A £'000	BBB £'000	Not rated £'000	Total £'000
Financial investments						
Shares and other variable yield securities and units in unit trusts	-	-	34,763	-	14,721	49,484
Debt securities and other fixed income securities	258	9,439	8,056	6,798	11,407	35,958
Deposits with credit institutions	-	-	2,019	-	-	2,019
Overseas deposits	2,390	415	642	789	2,435	6,671
Reinsurers' share of claims outstanding	-	51	34,331	2	33,726	68,110
Debtors arising out of direct insurance operations	-	-	-	-	73,845	73,845
Debtors arising out of reinsurance operations	-	-	488	-	5,684	6,172
Cash at bank and in hand	-	-	37,886	-	-	37,886
Other debtors and accrued interest	-	-	-	-	18,774	18,774
Total	2,648	9,905	118,185	7,589	160,592	298,919

Year 2016	AAA £'000	AA £'000	A £'000	BBB £'000	Not rated £'000	Total £'000
Financial investments						
Shares and other variable yield securities and units in unit trusts	-	-	33,868	-	14,528	48,396
Debt securities and other fixed income securities	781	39,274	10,979	11,537	-	62,571
Deposits with credit institutions	-	-	3,042	-	-	3,042
Overseas deposits	2,752	688	685	1,025	958	6,108
Reinsurers' share of claims outstanding	-	66	25,689	24	1,890	27,669
Debtors arising out of direct insurance operations	-	-	-	-	80,324	80,324
Debtors arising out of reinsurance operations	-	(2)	(335)	-	(21)	(358)
Cash at bank and in hand	-	-	14,256	-	-	14,256
Other debtors and accrued interest	-	-	-	-	6,723	6,723
Total	3,533	40,026	88,184	12,586	104,402	248,731

Notes (continued)

4. Risk and capital management (continued)

Exposure to credit risk (continued)

At 31 December 2017, the largest concentration of credit risk in the Syndicate's debt security portfolio was in governments and government agencies. At 31 December 2017, the Syndicate's credit risk exposure to government agencies and financial institutions amounted to £27.0 million (2016: £47.3 million).

The Syndicate has concentrations in its debt securities portfolio through its holdings of structured securities (including mortgage backed securities). The Syndicate does not have any investments with exposure to peripheral Eurozone countries.

The not rated balances within shares and other variable yield securities and units in unit trusts represent the Canadian regulated Short Term Blended accounts which are not rated by Standard and Poor's. The current year total of £14.7m is split between USD (£6.1m) and CAD (£8.6m) trust funds.

Financial assets that are past due or impaired

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date.

These debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties. An analysis of the carrying amounts of past due or impaired debtors is presented in the table below. The debtors arising from reinsurance operations excludes accepted reinsurance debtors of £24.0 million (2016: £25.7 million).

Year 2017	Debtors arising from direct insurance operations £'000	Debtors arising from reinsurance operations £'000
Past due but not impaired financial assets:		
Past due by:		
Up to 3 months	4,947	2,821
Three to Six Months	3,441	4
Six Months to one year	5,122	117
Greater than one year	3,606	76
Past due but not impaired financial assets	17,116	3,018
Impaired financial assets	-	-
Gross value of past due and impaired financial assets	17,116	3,018
Less: individually assessed impairment allowances	-	-
Net carrying value of past due and impaired financial assets	17,116	3,018
Neither past due nor impaired financial assets	73,845	6,172
Net carrying value	90,961	9,190

Notes (continued)

4. Risk and capital management (continued)

Financial assets that are past due or impaired (continued)

Year 2016	Debtors arising from direct insurance operations £'000	Debtors arising from reinsurance operations £'000
Past due but not impaired financial assets:		
Past due by:		
Up to 3 months	7,553	1,959
Three to Six Months	5,635	11
Six Months to one year	3,917	23
Greater than one year	2,731	134
Past due but not impaired financial assets	19,836	2,127
Impaired financial assets	-	-
Gross value of past due and impaired financial assets	19,836	2,127
Less: individually assessed impairment allowances	-	-
Net carrying value of past due and impaired financial assets	19,836	2,127
Neither past due nor impaired financial assets	80,324	(358)
Net carrying value	100,160	1,769

Liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations arising from its insurance contracts and financial liabilities. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts.

The nature of the Syndicate's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

Notes (continued)

4. Risk and capital management (continued)

Management of liquidity risk

The Syndicate's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Syndicate's reputation.

The Syndicate's approach to managing its liquidity risk is as follows:

- Forecasts are prepared and revised on a regular basis to predict cash outflows from insurance contracts over the short, medium and long term;
- Assets purchased by the Syndicate are required to satisfy specified marketability requirements;
- The Syndicate maintains cash and liquid assets to meet daily calls on its insurance contracts;
- The Syndicate regularly reviews its contingency funding plans to ensure that adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

The maturity analysis presented in the table below shows the remaining contractual maturities for the Syndicate's insurance contracts and financial instruments. For insurance contracts, the contractual maturity is the estimated date when the gross undiscounted contractually required cash flows will occur. For financial assets and liabilities it is the earliest date on which the gross undiscounted cash flows (including contractual interest payments) could be paid assuming conditions are consistent with those at the reporting date. The actual timing of future settlement cash flows may differ materially from the disclosure below.

Year 2017	Carrying amount £'000	Total cash flows £'000	Undiscounted net cash flows			
			Less than 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	49,484	49,484	49,484			
Debt securities	35,958	35,958	3,419	7,647	21,180	3,712
Deposits with credit institutions	2,019	2,019	2,019			
Overseas deposits	6,671	6,671	6,671			
Reinsurers share of technical provisions	108,686	108,686	19,107	19,883	47,733	21,963
Debtors and accrued interest	142,937	142,937	142,412	525		
Cash at bank and in hand	37,886	37,886	37,886			
Total assets	383,641	383,641	260,998	28,055	68,913	25,675
Technical provisions	375,283	375,283	60,095	102,684	147,851	64,653
Creditors	70,971	70,971	70,455	516		
Total liabilities	446,254	446,254	130,550	103,200	147,851	64,653

Notes (continued)

4. Risk and capital management (continued)

Management of liquidity risk (continued)

Year 2016	Carrying amount	Total cash flows	Undiscounted net cash flows			
			Less than 1 year	1-2 years	2-5 years	More than 5 years
			£'000	£'000	£'000	£'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	48,396	48,396	48,396	-	-	-
Debt securities	62,571	62,571	3,759	13,709	39,556	5,547
Deposits with credit institutions	3,042	3,042	3,042	-	-	-
Overseas deposits	6,108	6,108	6,108	-	-	-
Reinsurers share of technical provisions	41,511	41,511	6,086	5,011	21,230	9,184
Debtors and accrued interest	134,349	134,349	134,298	51	-	-
Cash at bank and in hand	14,256	14,256	14,256	-	-	-
Total assets	310,233	310,233	215,945	18,771	60,786	14,731
Technical provisions	300,648	300,648	51,095	76,824	151,429	21,300
Creditors	25,189	25,189	25,129	60	-	-
Total liabilities	325,837	325,837	76,224	76,884	151,429	21,300

In the above tables, the majority of debt securities, are included in the '2-5 years' column. In practice cash could be realised through the sale of the Syndicate's investments in debt securities. The disclosure does not take account of premiums received from new business written which can be used to pay claims arising.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. The nature of the Syndicate exposures to market risk and its objectives, policies and processes for managing market risk have not changed significantly from the prior year.

Management of market risks

For each of the major components of market risk the Syndicate has policies and procedures in place which detail how each risk should be managed and monitored. The management of each of these major components of major risk and the exposure of the Syndicate at the reporting date to each major risk are addressed below.

Notes (continued)

4. Risk and capital management (continued)

Interest rate risk

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

Interest rate risk arises primarily from the Syndicate's financial investments, cash and overseas deposits. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The StarStone Investment Committee monitors the duration of these assets on a regular basis.

Currency risk

The Syndicate writes business primarily in Sterling, Euro and US dollar and is therefore exposed to currency risk arising from fluctuations in the exchange rates of Sterling against these currencies.

The foreign exchange policy is to maintain assets in the currency in which the cash flows from liabilities are to be settled.

The table below summarises the carrying value of the Syndicate's assets and liabilities, at the reporting date:

Year 2017	GBP £'000	EUR £'000	USD £'000	CAD £'000	AUD £'000	Total £'000
Financial investments						
Shares and other variable yield securities and units in unit trusts	752	-	40,071	8,661	-	49,484
Debt securities and other fixed income securities	17,015	-	18,943	-	-	35,958
Deposits with credit institutions	-	-	2,019	-	-	2,019
Overseas deposits	3,236	-	1,166	2,041	228	6,671
	21,003	-	62,199	10,702	228	94,132
Reinsurers' share of technical provisions	7,087	9,593	88,665	2,302	1,039	108,686
Insurance and reinsurance receivables	(2,165)	4,276	118,172	205	3,675	124,163
Cash at bank and in hand	4,815	31,097	1,364	-	610	37,886
Other assets	6,615	6,518	27,143	1,266	1,524	43,066
Total assets	37,355	51,484	297,543	14,475	7,076	407,933
Technical provisions	32,162	50,600	277,550	9,894	5,077	375,283
Insurance and reinsurance payables	82	7,293	52,374	1,721	1,230	62,700
Other creditors	5,634	923	10,310	310	13	17,190
Total liabilities	37,878	58,816	340,234	11,925	6,320	455,173
Net assets/(liabilities)	(523)	(7,332)	(42,691)	2,550	756	(47,240)

Notes (continued)

4. Risk and capital management (continued)

Currency risk (continued)

Year 2016	GBP £'000	EUR £'000	USD £'000	CAD £'000	AUD £'000	Total £'000
Financial investments						
Shares and other variable yield securities and units in unit trusts	5,000	-	35,781	7,615	-	48,396
Debt securities and other fixed income securities	13,698	-	48,873	-	-	62,571
Deposits with credit institutions	-	-	3,042	-	-	3,042
Overseas deposits	2,736	-	1,069	2,303	-	6,108
	21,434	-	88,765	9,918	-	120,117
Reinsurers' share of technical provisions	5,288	858	34,853	512	-	41,511
Insurance and reinsurance receivables	(998)	16,970	111,062	592	-	127,626
Cash at bank and in hand	667	13,166	423	-	-	14,256
Other assets	1,522	3,992	22,448	1,558	-	29,520
Total assets	27,913	34,986	257,551	12,580	-	333,030
Technical provisions	29,573	38,243	223,946	8,886	-	300,648
Insurance and reinsurance payables	(347)	(311)	18,726	279	-	18,347
Other creditors	319	27	8,867	53	-	9,266
Total liabilities	29,545	37,959	251,539	9,218	-	328,261
Net assets/(liabilities)	(1,632)	(2,973)	6,012	3,362	-	4,769

Notes (continued)

4. Risk and capital management (continued)

Sensitivity analysis to market risks

An analysis of the Syndicate's sensitivity to interest rate, currency and other price risk is presented in the table below. The table shows the effect on profit or loss of reasonably possible changes in the relevant risk variable, assuming that all other variables remain constant, if that change had occurred at the end of the reporting period and had been applied to the risk exposures at that date.

	2017 Profit or loss for the year £'000	2016 Profit or loss for the year £'000
Interest rate risk		
+ 50 basis points shift in yield curves	(498)	(920)
- 50 basis points shift in yield curves	498	920
Currency risk		
10 percent increase in GBP/euro exchange rate	667	270
10 percent decrease in GBP/euro exchange rate	(815)	(330)
10 percent increase in GBP/US dollar exchange rate	3,881	(547)
10 percent decrease in GBP/US dollar exchange rate	(4,743)	668
Market price risk		
5 percent increase in market prices	1,798	3,129
5 percent decrease in market prices	(1,798)	(3,129)

The impact of the reasonably possible changes in the risk variables on Members' balances would be the same, since the Syndicate recognises all changes in recognised assets and liabilities in profit or loss.

A 10% increase (or decrease) in exchange rates on net assets, a 5% increase (or decrease) in investment market prices, a 50 basis point increase in yield curves and an 50 basis point decrease in yield curves have been selected on the basis that these are considered to be reasonably possible changes in these risk variables over the following year.

The sensitivity analysis demonstrates the effect of a change in a key variable while other assumptions remain unchanged. However, the occurrence of a change in a single market factor may lead to changes in other market factors as a result of correlations.

The sensitivity analyses do not take into consideration that the Syndicate's financial investments are actively managed. Additionally, the sensitivity analysis is based on the Syndicate's financial position at the reporting date and may vary at the time that any actual market movement occurs. As investment markets move past pre-determined trigger points, action would be taken which would alter the Syndicate's position.

Notes (continued)

4. Risk and capital management (continued)

Operational Risk

This is the risk that errors caused by people, processes or systems lead to losses to the Syndicate. The agency seeks to manage this risk through the use of detailed procedure manuals and a structured programme of compliance testing of processes and systems, including those of sub-contractors used.

Group risk

This is the risk that changes in group strategy or the fortunes of other group companies will lead to losses to the Syndicate. This risk is reviewed quarterly as part of the regular review processes.

Regulatory Risk

The managing agent is required to comply with the requirements of the Prudential Regulation Authority, the Financial Conduct Authority and Lloyd's. Lloyd's requirements include minimum standards and those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to a regulatory change. The agency monitors regulatory developments and assesses their impact on agency policy and procedures. In addition, the agency carries out a compliance monitoring programme.

Capital management

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework.

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

Although, as described below, 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 1301 is not disclosed in these financial statements.

Lloyd's capital setting process

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

Notes (continued)

4. Risk and capital management (continued)

Lloyd's capital setting process (continued)

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicates on which it is participating but not other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the proportion of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 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), assets held and managed within a Syndicate (funds in Syndicate), or as the member's share of the members' balances on each Syndicate on which it participates. Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the balance sheet on page 13, represent resources available to meet members' and Lloyd's capital requirements.

5. Analysis of underwriting result

An analysis of the underwriting result before investment return and profit/(loss) on foreign exchange is presented in the table below:

Year 2017	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance						
Accident and health	8,233	7,305	(3,361)	(2,656)	(1,078)	210
Marine, aviation and transport	79,229	68,032	(58,112)	(16,293)	(5,425)	(11,798)
Fire and other damage to property	61,144	58,592	(83,234)	(17,121)	6,347	(35,416)
Third party liability	15,104	13,280	(14,945)	(1,612)	1,453	(1,824)
Miscellaneous	3,230	1,663	(1,537)	(270)	(168)	(312)
	166,940	148,872	(161,189)	(37,952)	1,129	(49,140)
Reinsurance	68,630	66,493	(41,833)	(16,707)	(11,007)	(3,054)
Total	235,570	215,365	(203,022)	(54,659)	(9,878)	(52,194)

Notes (continued)

5. Analysis of underwriting result (continued)

Year 2016	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Net Technical Result £'000
Direct insurance						
Accident and health	9,140	9,558	(4,219)	(4,424)	(1,051)	(136)
Marine, aviation and transport	67,386	65,343	(38,783)	(26,467)	(1,941)	(1,848)
Fire and other damage to property	54,950	58,718	(39,033)	(17,215)	(10,354)	(7,884)
Third party liability	12,685	12,199	(2,543)	(451)	(5,525)	3,680
Miscellaneous	1,399	1,099	(303)	(422)	(79)	295
	145,560	146,917	(84,881)	(48,979)	(18,950)	(5,893)
Reinsurance	63,302	61,201	(26,295)	(22,589)	914	13,231
Total	208,862	208,118	(111,176)	(71,568)	(18,036)	7,338

No gains or losses were recognised in profit or loss during the year on buying reinsurance (2016: nil).

The gross premiums written for direct insurance by business origin is presented in the table below:

	2017 £'000	2016 £'000
United Kingdom	188	2,023
Other European Union Member States	5,974	5,826
US	30,874	24,560
Other countries	129,904	113,151
Total gross premiums written	166,940	145,560

Notes (continued)

6. Claims

Adverse movements of £71.4 million, (2016: £9.1 million favourable), in the past year's provision for claims outstanding, net of expected reinsurance recoveries, are included in claims incurred, net of reinsurance. These arose in respect of the following classes of business:

	2017 £'000	2016 £'000
Accident and health	(2,271)	210
Marine, aviation and transport	(25,119)	522
Fire and other damage to property	(27,806)	8,052
Third party liability	(5,048)	2,858
Miscellaneous	(113)	67
Reinsurance	(11,001)	(2,628)
	(71,358)	9,081

7. Net operating expenses

	2017 £'000	2016 £'000
Acquisition costs:		
Brokerage and commissions	51,906	45,434
Other acquisition costs	6,280	(3,432)
	58,186	42,002
Change in deferred acquisition costs	1,948	2,062
Administrative expenses	17,666	25,550
Members' standard personal expenses	4,017	2,940
Reinsurance commissions and profit participation	(27,158)	(986)
Net operating expenses	54,659	71,568

Total written commissions for direct insurance business for the year amounted to £39.3 million (2016: £32.7million).

The majority of administrative expenses are incurred by the UK services company and are recharged to the Syndicate in line with Group policy. As the Syndicate increases the amount of premium written and earned, costs recharged to the Syndicate increase. Also included in administrative expenses is the Syndicate's charge for share based remuneration costs which vary according to the share price of Enstar Group Limited. During the year, the Enstar Group Limited share price has increased.

Notes (continued)

7. Net operating expenses (continued)

Administrative expenses include:

	2017 £'000	2016 £'000
Auditor's remuneration:		
- fees payable to the Syndicate's auditor for the audit of these financial statements	10	10
- fees payable to the Syndicate's auditor and its associates in respect of other services pursuant to legislation	176	204

8. Key management personnel compensation

The directors of StarStone Underwriting Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2017 £'000	2016 £'000
Directors' emoluments	1,328	1,407
Fees	-	-

No other compensation was payable to key management personnel.

The active underwriter received the following aggregate remuneration charged to the Syndicate and included within directors' emoluments above.

	2017 £'000	2016 £'000
Emoluments	436	427

9. Staff numbers and costs

All staff are employed by Enstar (EU) Limited. The average number of persons employed by Enstar (EU Limited, but working for the Syndicate during the year, analysed by category, was as follows:

	2017	2016
Administration and finance	20	21
Underwriting	50	48
Claims	8	8
Investments	-	-
	78	77

Notes (continued)

9. Staff numbers and costs (continued)

The following amounts were recharged by Enstar (EU) Limited through the managing agency to the Syndicate in respect of payroll costs:

	2017	2016
	£'000	£'000
Wages and salaries	12,542	17,069
Social security costs	988	2,406
Other pension costs	632	1,233
Other	397	846
	14,559	21,554

10. Investment return

The investment return transferred to the technical account from the non-technical account comprises the following:

	2017	2016
	£'000	£'000
Investment income:		
Interest and dividend income	1,673	1,091
Realised gains	123	320
Unrealised gains on investments	1,347	1,867
Investment expenses and charges:		
Investment management expenses, including interest	(49)	(63)
Losses on the realisation of investments	(544)	(105)
Unrealised losses on investments	(1,273)	(1,924)
Investment return transferred to the technical account from the non-technical account	1,277	1,186
Impairment losses on debtors recognised in administrative expenses in technical account	-	-
Total investment return	1,277	1,186

In a challenging investment environment where the Syndicate's focus is on liquidity and the preservation of capital, the investment policy is to invest predominantly in high quality, short dated bonds. The maturity profile of the portfolio reflects the short tail nature of the underwriting commitments, the currency mix is matched to that of the net liabilities and there is no exposure to equities.

Notes (continued)

10. Investment return (continued)

The total income, expenses, net gains or losses, including changes in fair value, recognised on all financial assets and financial liabilities comprises the following:

	2017 £'000	2016 £'000
Financial assets at fair value through profit or loss	(347)	158
Financial assets at amortised cost:		
Interest income	1,673	1,091
Impairment losses on debtors	-	-
Financial liabilities at amortised cost:		
Interest expense	-	-
Investment management expenses, excluding interest	(49)	(63)
Total investment return	1,277	1,186

The table below presents the average amounts of funds in the year per currency and analyses by major currency the average investment yields in the year.

	2017 £'000	2016 £'000
Average amount of Syndicate funds available for investment during the year		
Sterling	23,960	18,393
Euro	22,131	12,740
US dollar	46,571	53,479
Canadian Dollar	3,397	1,957
Australian Dollar	419	-
Total funds available for investment, in sterling	96,478	86,569
Total investment return	1,277	1,186
Annual investment yield		
Sterling	0.51%	1.75%
Euro	0.00%	0.00%
US dollar	2.34%	1.51%
Canadian Dollar	1.91%	2.91%
Australian Dollar	0.00%	0.00%
Total annual investment yield, in sterling	1.32%	1.37%

Notes (continued)

11. Financial investments

	Carrying value		Cost	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Shares and other variable yield securities and units in unit trusts	49,484	48,396	49,484	48,396
Debt securities and other fixed income securities	35,958	62,571	36,294	64,417
Government and supranational securities	16,299	33,628	16,376	34,969
Asset backed securities	0	0	0	0
Mortgage backed instruments	2,732	3,380	2,783	3,442
Corporate bonds	16,927	25,563	17,135	26,006
Deposits with credit institutions	2,019	3,042	2,019	3,042
Overseas deposits as investments	6,671	6,108	6,671	6,108
Total financial investments	94,132	120,117	94,468	121,963

The amount ascribable to listed investments is £36.0 million (2016: £62.6 million).

The table below presents an analysis of financial investments by their measurement classification.

	2017 £'000	2016 £'000
Financial assets measured at fair value through profit or loss	35,958	62,571
Financial assets measured at amortised cost	58,174	57,546
Total financial investments	94,132	120,117

The Syndicate classifies its financial instruments held at fair value in its statement of financial position using a fair value hierarchy, as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – Prices based on recent transactions in identical assets (either unadjusted or adjusted)
- Level 3 – Prices determined using a valuation technique

Notes (continued)

11. Financial investments (continued)

The table below analyses financial instruments held at fair value in the Syndicate's statement of financial position at the reporting date by its level in the fair value hierarchy.

2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities and units in unit trusts	-	49,484	-	49,484
Debt securities and other fixed income securities	15,373	20,585	-	35,958
Loans and deposits with credit institutions	2,019	-	-	2,019
Overseas deposits	3,123	3,548	-	6,671
Total	20,515	73,617	-	94,132

2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Shares and other variable yield securities and units in unit trusts	-	48,396	-	48,396
Debt securities and other fixed income securities	29,057	33,514	-	62,571
Loans and deposits with credit institutions	3,042	-	-	3,042
Overseas deposits	2,398	3,710	-	6,108
Total	34,497	85,620	-	120,117

Information on the methods and assumptions used to determine fair values for each major category of financial instrument measured at fair value is provided below.

Debt securities are generally valued using prices provided by external pricing vendors. Pricing vendors will often determine prices by consolidating prices of recent trades for identical or similar securities obtained from a panel of market makers into a composite price. The pricing service may make adjustments for the elapsed time from a trade date to the valuation date to take into account available market information. Lacking recently reported trades, pricing vendors will use modelling techniques to determine a security price.

Some government and supranational securities are listed on recognised exchanges and are generally classified as level 1 in the fair value hierarchy. Those that are not listed on a recognised exchange are generally based on composite prices of recent trades in the same instrument and are generally classified as level 2 in the fair value hierarchy.

Corporate bonds, including asset backed securities, that are not listed on a recognised exchange or are traded in an established over-the-counter market are also mainly valued using composite prices. Where prices are based on multiple quotes and those quotes are based on actual recent transactions in the same instrument the securities are classified as level 2, otherwise they are classified as level 3 in the fair value hierarchy.

Notes (continued)

11. Financial investments (continued)

The fair values for all securities in the fixed maturity investments portfolio are independently provided by the investment accounting service providers, investment managers and investment custodians, each of which utilize internationally recognized independent pricing services. Enstar Group record the unadjusted price provided by the investment accounting service providers, investment managers or investment custodians and validate this price through a process that includes, but is not limited to:

- (i) comparison of prices against alternative pricing sources;
- (ii) quantitative analysis (e.g. comparing the quarterly return for each managed portfolio to its target benchmark);
- (iii) evaluation of methodologies used by external parties to estimate fair value, including a review of the inputs used for pricing;
- (iv) comparing the price to Enstar Group's knowledge of the current investment market.

Enstar Group have on-going due diligence processes with respect to the other investments carried at fair value and their managers. These processes are designed to assist in assessing the quality of information provided by, or on behalf of, each fund and in determining whether such information continues to be reliable or whether further review is warranted. Certain funds do not provide full transparency of their underlying holdings; however, Enstar Group obtain the audited financial statements for funds annually, and regularly review and discuss the fund performance with the fund managers to corroborate the reasonableness of the reported net asset values.

At the reporting date all debt instruments were valued using valuation techniques based on observable market data.

12. Debtors arising out of direct insurance operations

	2017	2016
	£'000	£'000
Amounts due from intermediaries:		
Due within one year	90,456	100,130
Due after one year	505	30
	90,961	100,160

13. Debtors arising out of reinsurance operations

	2017	2016
	£'000	£'000
Amounts due within one year	33,182	27,445
Amounts due after one year	20	21
	33,202	27,466

Notes (continued)

14. Deferred acquisition costs

	2017	2016
	£'000	£'000
Balance at 1 January	22,317	17,084
Incurring costs deferred	51,906	45,434
Amortisation	(46,731)	(44,242)
Effect of movements in exchange rates	(3,200)	4,041
Balance at 31 December	24,292	22,317

15. Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2017 in all cases.

Pure underwriting year - Gross	2011	2012	2013	2014	2015	2016	2017	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Estimate of ultimate gross claims								
at end of underwriting year	29.5	25.9	49.9	49.4	62.0	69.8	116.5	
one year later	55.7	52.0	83.6	86.7	105.6	141.9		
two years later	61.8	53.1	80.8	86.1	115.7			
three years later	58.4	51.9	79.9	82.9				
four years later	58.3	52.1	80.7					
five years later	58.4	51.8						
Six years later	58.6							
Less gross claims paid	57.3	50.5	65.3	61.0	70.1	58.7	15.5	
Gross ultimate claims reserve	1.3	1.3	15.4	21.9	45.6	83.2	101.0	269.7
Gross ultimate claims reserve for 2010 and prior years								3.7
Gross claims reserves								273.4

Notes (continued)

15. Claims development (continued)

Pure underwriting year - Net	2011	2012	2013	2014	2015	2016	2017	Total
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Estimate of ultimate net claims								
at end of underwriting year	24.4	24.8	47.0	49.0	53.4	64.7	75.9	
one year later	51.0	50.9	76.7	80.3	95.6	132.9		
two years later	55.7	52.3	71.4	80.4	102.8			
three years later	51.9	51.0	69.2	78.1				
four years later	51.7	51.3	69.7					
five years later	51.9	51.0						
Six years later	52.1							
Less net claims paid	51.1	49.7	58.7	59.7	68.0	57.1	15.5	
Net ultimate claims reserve	1.0	1.3	11.0	18.4	34.8	75.8	60.4	202.7
Net ultimate claims reserve for 2010 and prior years								2.6
Net claims reserves								205.3

Notes (continued)

16. Technical provisions

The table below shows changes in the insurance contract liabilities and assets from the beginning of the period to the end of the period.

	2017			2016		
	Gross provisions £'000	Reinsurance assets £'000	Net £'000	Gross provisions £'000	Reinsurance assets £'000	Net £'000
Incurred claims outstanding:						
Claims notified	107,020	(11,841)	95,179	70,341	(9,065)	61,276
Claims incurred but not reported	96,697	(15,828)	80,869	66,505	(12,002)	54,503
Balance at 1 January	203,717	(27,669)	176,048	136,846	(21,067)	115,779
Change in prior year provisions	77,132	(5,774)	71,358	(13,504)	4,423	(9,081)
Expected cost of current year claims	125,891	(48,863)	77,028	124,680	(12,867)	111,813
Claims paid during the year	(118,884)	11,037	(107,847)	(71,329)	5,687	(65,642)
Effect of movements in exchange rates	(14,396)	3,159	(11,237)	27,024	(3,845)	23,179
Balance at 31 December	273,460	(68,110)	205,350	203,717	(27,669)	176,048
Claims notified	168,351	(32,514)	135,837	107,020	(11,841)	95,179
Claims incurred but not reported	105,109	(35,596)	69,513	96,697	(15,828)	80,869
Balance at 31 December	273,460	(68,110)	205,350	203,717	(27,669)	176,048
Unearned premiums						
Balance at 1 January	96,931	(13,842)	83,089	78,037	(9,903)	68,134
Premiums written during the year	235,570	(93,385)	142,185	208,862	(29,321)	179,541
Premiums earned during the year	(215,365)	64,515	(150,850)	(208,118)	26,480	(181,638)
Effect of movements in exchange rate	(15,313)	2,136	(13,177)	18,150	(1,098)	17,052
Balance at 31 December	101,823	(40,576)	61,247	96,931	(13,842)	83,089

Notes (continued)

17. Creditors

(i) Creditors arising out of direct insurance operations

	2017	2016
	£'000	£'000
Due within one year	10,934	7,360
Due after one year	-	-
Total creditors arising out of direct insurance operations	10,934	7,360

(ii) Creditors arising out of reinsurance operations

	2017	2016
	£'000	£'000
Due within one year	51,250	10,927
Due after one year	516	60
Total creditors arising out of reinsurance operations	51,766	10,987

Creditors arising out of reinsurance operations include £40.6m (2016: £1.6) due to related undertakings. Other creditors include £8.3m (2016: £6.8m) due to related undertakings.

18. Cash and cash equivalents

	2017	2016
	£'000	£'000
Short term deposits with credit institutions	49,484	48,396
Cash at bank and in hand	37,886	14,256
Total cash and cash equivalents	87,370	62,652

Only deposits with credit institutions with maturities of three months or less that are used by the Syndicate in the management of its short-term commitments are included in cash and cash equivalents.

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries. The funds are required in order to protect policyholders in overseas markets and enable the Syndicate to operate in those markets. The access to those funds is restricted and the Syndicate cannot influence the investment strategy.

19. Related parties

StarStone Insurance Holdings Limited, a company incorporated in Bermuda, is the immediate parent company. Enstar Group Limited, a company incorporated in Bermuda, is the ultimate parent company and ultimate controlling party. Copies of the consolidated financial statements of Enstar Group Limited can be obtained from The Secretary, Enstar Group Limited, Windsor Place, 3rd Floor, 22 Queen Street, Hamilton, HM 11 Bermuda.

Notes (continued)

19. Related parties (continued)

StarStone Corporate Capital 1 Limited is a corporate member within the StarStone Group which owns capacity in various years of account of the Syndicate.

SGL No 1 Limited is a corporate member within the Enstar Group which owns capacity in various years of account of the Syndicate.

The Syndicate has a quota share agreement with Kayla Re Ltd for the 2017 YOA and future years in which Kayla Re Ltd reinsures 35% of business written by the Syndicate. 48.4% of Kayla Re's common shares are owned by Enstar Group Limited. Included within the outwards written reinsurance premium of £93.4m are £65.9m worth of premiums which have been written under this contract. The amount of reinsurance recoverable (including ceded ULAE) as at the end of the year was £37.9m. The Syndicate has not remitted any funds in respect of premiums (net of commission) to Kayla Re during the year and therefore holds a surplus of £1.3m in respect of the net amount due to Kayla Re.

The Syndicate has a quota share agreement with StarStone Insurance SE. The 2017 year-end balance payable to StarStone Insurance SE is £1.4m and the amount due from StarStone Insurance SE in respect of reinsurance recoveries is £0.8m.

Enstar (EU) Limited is a service company which employs all UK StarStone Group staff including underwriters, claims and reinsurance staff.

The Syndicate has cover holder agreements with StarStone Insurance Services Limited and StarStone US Intermediaries Inc. who are approved Lloyd's coverholders. Included in the gross written premiums of £235.6m are premiums of £52.5m and £1.7m respectively, which have been written under the terms of this contract. In total, 23% of the gross written premiums for the year related directly to these coverholder agreements. In addition, the 2017 year-end balance sheet has a pipeline debtor of £34.8m due from StarStone Insurance Services Limited and £0.6m due from StarStone US Intermediaries Inc. The balances are not overdue.

The Syndicate entered into an agreement with Objective Underwriting. Included within gross written premiums of £235.6m are premiums of £8.7m in respect of business generated by Objective representing 4% of gross written premiums for the year.

The Syndicate entered into an agreement with StarStone Underwriting Australia Pty Ltd which generated gross written premiums of £1.5m (less than 1%) of total gross written premium of £235.6m.

StarStone Underwriting Limited has recharged the Syndicate for most expenses incurred during the calendar year. The expenses recharged during the year amounted to £19.7m out of which £3.4m was outstanding at the end of year.

The Syndicate expenses included direct expense recharges from StarStone Insurance Services Ltd of £6.3m out of which £4.7m was outstanding at the end of year.

The Syndicate expenses include a recovery from Enstar Ltd of £1.1m for management fees in respect of business processed through Kayla Re.

J Wardrop is a non-executive director of Ark Syndicate Management Limited ("Ark") which manages Syndicates 3902 and 4020. During the year the Syndicate wrote £0.3m and £1.6m of premiums lead by 3902 and 4020 respectively. The Syndicate is also due £0.2m from Syndicate 4020 with respect to reinsurance recoveries and paid 0.2m in respect of reinsurance premiums during the year.

Notes (continued)

19. Related parties (continued)

E Gilmour is a non-executive director of Antares Managing Agency Limited ("Antares") which manages Syndicates 1274. During the year the Syndicate wrote £1.2m of premiums lead by 1274 and paid out 0.1m in respect of reinsurance premiums during the year.

The Syndicate is supported by SGL No.1 Limited who provided 100% of its underwriting capacity for the 2017 underwriting year of account. (2016: StarStone Corporate Capital 1 Limited provided 39.3% and SGLNo.1 Limited 60.7%).

During the year transactions have been entered into between the Syndicate and the managed Syndicate within Enstar Group companies (Atrium managed Syndicate 609). Any such related party transactions are entered into by the Syndicate on a commercial basis.

20. Foreign exchange rates

The following currency exchange rates have been used for principal foreign currency transactions

	2017		2016	
	Year-end rate	Average rate	Year-end rate	Average rate
Euro	1.12	1.14	1.17	1.22
US dollar	1.35	1.29	1.23	1.36
Canadian dollar	1.69	1.67	1.66	1.80
Australian dollar	1.73	1.68	1.71	1.82

20. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyds ("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 Prudential Regulatory Authority requirements and resource criteria. The determination of 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 able to make a call on the members FAL to meet liquidity requirements or to settle losses.