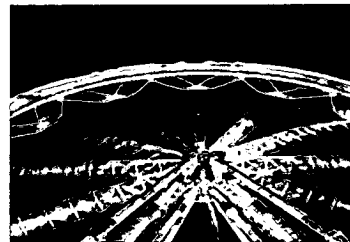
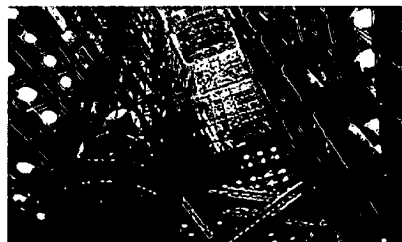
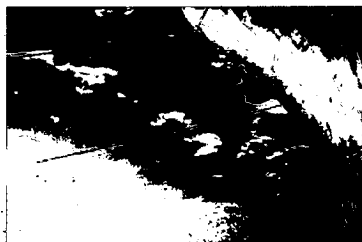




AEGIS LONDON HOLDINGS LIMITED



Annual Report

Year Ended 31 December 2016

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COMMERCIAL ADVANTAGE. MUTUAL BENEFIT

CONTENTS

Financial highlights	3
Strategic Report	4
Directors' Report	5
Statement of directors' responsibilities	6
Statement of total comprehensive income	7
Consolidated balance sheet	9
Company balance sheet	11
Consolidated statement of shareholder's funds	12
Notes to the accounts	13
Independent auditor's report	35
Administration	37

Financial highlights

Total comprehensive income £49.1m (2015: £34.2m) In the last five years a cumulative profit of £181m was made.	Gross written premium £377m (2015: £333m) Further diversification and strengthening of the US dollar increased gross written premium by £44m.
Combined ratio 87.2% (2015: 78.0%) The average combined ratio for the last five years is 85.1%.	Investment return £29.6m (2015: £(3.6)m) (4.94% total return) due to better performing core fixed income, high yield, and equity portfolios.

Five year financial performance

£ million	2016	2015	2014	2013	2012
Gross written premium	376.7	332.9	371.0	366.9	371.3
Underwriting profit	19.8	55.9	48.1	38.9	29.6
Investment return	29.6	(3.6)	15.8	24.7	25.0
Total comprehensive income	49.1	34.2	47.3	26.1	24.4
Combined ratio	87.2%	78.0%	84.7%	85.9%	89.9%



**A+(strong) from
Standard & Poor's ²**



**A (Excellent) from
A.M. Best ²**



**A+ (strong) from
Fitch ²**

Report of the directors

The directors of AEGIS London Holdings Limited ("the Company") present their report and audited financial statements for the year ended 31 December 2016.

The Company is, through intermediate holding companies, a wholly owned subsidiary of Associated Electric & Gas Insurance Services Limited (AEGIS) incorporated in Bermuda.

1. Strategic Report

Principal activity and review of the business

The principal activity of AEGIS London Holdings Limited is that of a Holding company. Its subsidiary AEGIS Managing Agency Limited ("the Managing Agent") manages the insurance Syndicate 1225 ("the Syndicate") which transacts specialist insurance and reinsurance business across 21 classes of business underwritten within the Lloyd's of London insurance market. The Syndicate capital providers AEGIS Electric & Gas Insurance Services Limited ("AISL"), AISL 2, AISL 3, AISL 4 and AISL 5 are all wholly owned subsidiaries of the Company. The total premium written in 2016 was £377 million which saw an increase of £44 million on 2015 as a reflection of further diversification initiatives and the depreciation of Sterling against the US\$ during 2016. A significant proportion of the Syndicate's underwriting is sourced from North America.

The business mix is as follows:

	2016	2015	2014	2013	2012
Property	64%	68%	68%	70%	68%
Casualty	36%	32%	32%	30%	32%

Total comprehensive income: £49.1m (2015: £34.2m) with a combined ratio of 87.2% (2015: 78.0%)

AEGIS London recorded its eleventh successive year of underwriting profit. The result is a continuing reflection of the strong underwriting performance, prudent management of risk appetite and careful control over expenses. The increase in combined ratio compared to 2015 has been caused by a more normalised loss environment in 2016. The historic consistency of the combined ratio reflects the fact that AEGIS London has consciously reduced its catastrophe risk exposure and its single risk limits. This has been achieved through selective underwriting of individual risks and refusal to write business in areas that are under priced relative to their volatility.

Investment income: £29.6m (2015: £3.6m loss)

Investment income increased by £33.2 million during 2016 due to better performing core fixed income, high yield, and equity portfolios.

The total cash and financial investments of AEGIS London Holdings Limited were £712.6 million (2015: £603.0 million)

	2016	2015	2016	2015
	£m	£m	% of Total	% of Total
Fixed income	584.3	483.3	82%	80%
Equity and unit trust	52.6	50.8	7%	8%
Overseas deposits	56.6	42.3	8%	7%
Cash	19.1	26.6	3%	4%
	712.6	603.0		

Report of the directors *(continued)*

Future developments

The Syndicate's underwriting capacity for 2017 will remain at £330 million. In what is a challenging market place, our philosophy of capital preservation will continue whilst soft market conditions prevail. However we are looking for disciplined profitable growth in those classes that still retain a prospective acceptable margin. A focus on the most cost effective access to the more profitable classes of business will be pursued as will our appetite for further diversification through new product lines.

Principal risks and uncertainties

The principal risks to the business have been evaluated through an extensive enterprise risk management programme and relate to future uncertainties of claims reserve risk, investment risk, underwriting risks from both catastrophe and non-catastrophe events and operational risk. All of these are closely monitored and managed. For further details see note 2 of these financial statements.

Use of financial instruments

In relation to the use of financial instruments, the financial risk management objectives and policies of the Syndicate as well as the exposure of the Syndicate to risk are discussed in note 2 of these accounts.

2. Directors' Report

D P Croom-Johnson
C D Forbes
W von Schack
O Ryan

The current directors are shown above. A J Maguire resigned on 8 December 2016 and O Ryan was appointed on 7 April 2017.

Proposed dividend and transfer to reserves

The Company paid a £5.7 million dividend in the year ended 31 December 2016 (2015: £20.4million).

Going concern

The Group and Company has considerable financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced and stable team. The directors believe that the Group and the Company is well positioned to manage its business risks successfully in the current economic environment.

After making enquiries, the directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis for preparing the annual report and accounts.

Directors' indemnities

The Group and Company has agreed to indemnify, to the extent permitted by law, each of the directors against any liability incurred by a director in respect of acts or omissions arising in the course of their office. The indemnities were in force throughout 2016 and remain so. Copies of the deeds of indemnity are available for inspection at the ultimate parent company's registered office

Report of the directors *(continued)*

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the director has taken all the steps that he or she ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of s418 of the Companies Act 2006.

Independent auditors

Deloitte LLP have indicated their willingness to be appointed for another term and appropriate arrangements have been put in place for them to be re-appointed as auditor.

3. Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

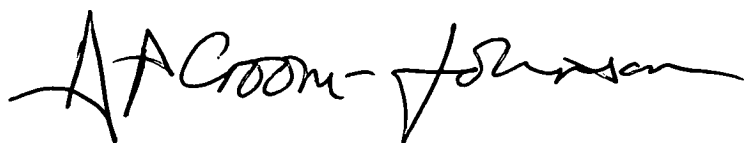
Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting 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 on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Approved by the Board of Directors of AEGIS London Holdings Limited and signed on its behalf by:



D P Croom – Johnson
Managing Director
11 August 2017

Consolidated statement of total comprehensive income

(for the year ended 31 December 2016)

	Notes	2016 £m	2015 £m
Technical account – general business			
Earned premium, net of reinsurance:			
Gross premiums written	3	376.7	332.9
Outward reinsurance premium		<u>(81.8)</u>	<u>(68.8)</u>
Net premiums written		294.9	264.1
Change in provision for unearned premiums:			
Gross amount	15	(9.7)	19.3
Reinsurers' share	15	7.2	3.5
Quota share agreement	15	<u>(18.5)</u>	<u>(8.7)</u>
Change in the net provision for unearned premiums		<u>(21.0)</u>	<u>14.1</u>
Earned premiums, net of reinsurance		273.9	278.2
Allocated investment return transferred from the non-technical account			
		8.3	5.5
Other technical income		<u>6.6</u>	<u>7.2</u>
Total technical income		<u>288.8</u>	<u>290.9</u>
Claims incurred, net of reinsurance			
Gross claims paid		(175.7)	(171.6)
Reinsurers' share		<u>25.2</u>	<u>46.9</u>
Net claims paid		(150.5)	(124.8)
Change in the provision for claims:			
Gross amount	15	(34.1)	18.8
Reinsurers' share	15	<u>33.2</u>	<u>(8.4)</u>
Change in the net provision for claims		<u>(0.9)</u>	<u>10.3</u>
Claims incurred, net of reinsurance		(151.4)	(114.4)
Net operating expenses	6	<u>(109.2)</u>	<u>(115.1)</u>
Total technical charges		<u>(260.6)</u>	<u>(229.5)</u>
Balance on technical account – general business		<u>28.2</u>	<u>61.4</u>

The notes 1 to 25 form an integral part of these financial statements.

Consolidated statement of total comprehensive income

(for the year ended 31 December 2016)

	Notes	2016 £m	2015 £m
Non-technical account			
Balance on the general business technical account		28.2	61.4
Interest income from investments		18.7	18.9
Realised investment gains		8.9	3.4
Realised investment losses		(2.9)	(6.3)
Unrealised gains on investments		15.1	1.4
Unrealised losses on investments		(7.5)	(18.3)
Investment expenses and investment management charges		(2.9)	(2.7)
Allocated investment return transferred to the technical account		(8.3)	(5.5)
Other expenses		(2.8)	(11.4)
Loss on exchange		(0.3)	(1.1)
Profit on ordinary activities before tax		46.2	39.8
Tax charge - ordinary activities	9	(16.8)	(12.4)
Profit on ordinary activities after tax		29.4	27.4
Other comprehensive income		19.7	6.8
Total comprehensive income		49.1	34.2

The consolidated statement of total comprehensive income relates entirely to continuing activities.

The notes 1 to 25 form an integral part of these financial statements.

Consolidated balance sheet

(as at 31 December 2016)

	Notes	2016 £m	2015 £m
ASSETS			
Fixed assets			
Tangible fixed assets	10	<u>0.2</u>	<u>0.2</u>
		0.2	0.2
Investments			
Financial investments	14	636.9	534.2
Reinsurers' share of technical provisions			
Provision for unearned premiums	15	50.2	39.1
Claims outstanding	15	<u>164.5</u>	<u>112.0</u>
		214.7	151.1
Debtors			
Debtors arising out of direct insurance operations	12	109.5	91.5
Debtors arising out of reinsurance operations	12	16.9	13.2
Other debtors	18	14.5	11.7
Deferred tax	17	<u>3.6</u>	<u>2.1</u>
		144.5	118.5
Other assets			
Cash at bank and in hand		19.1	26.6
Overseas deposits		<u>56.6</u>	<u>42.3</u>
		75.7	68.9
Prepayments and accrued income			
Deferred acquisition costs		54.0	41.8
Other prepayments and accrued income		<u>4.8</u>	<u>4.6</u>
		58.8	46.4
TOTAL ASSETS		<u>1,130.8</u>	<u>919.3</u>

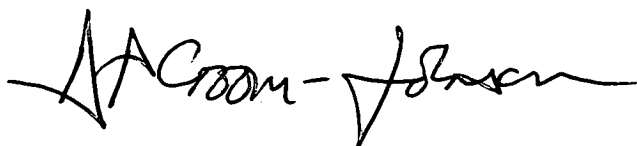
The notes 1 to 25 form an integral part of these financial statements.

Consolidated balance sheet

(as at 31 December 2016)

	Notes	2016 £m	2015 £m
LIABILITIES			
Capital and reserves			
Called up share capital	21	-	-
Profit and loss account		196.1	152.7
Merger reserve		0.4	0.4
Shareholders' surplus attributable to equity interests		<u>196.5</u>	<u>153.1</u>
Technical provisions			
Provision for unearned premium	15	240.7	197.7
Claims outstanding	15	545.9	441.4
		<u>786.6</u>	<u>639.1</u>
Creditors: amounts falling due within one year			
Creditors arising out of direct insurance operations	13	3.1	5.7
Creditors arising out of reinsurance operations	13	43.8	31.9
Accruals and deferred income		13.4	18.1
Other creditors	19	56.5	43.7
		<u>116.8</u>	<u>99.4</u>
Other provisions			
Deferred tax	17	7.9	10.7
Creditors: amounts falling due after more than one year			
	20	23.0	17.0
		<u>1,130.8</u>	<u>919.3</u>
TOTAL LIABILITIES			

The annual accounts of AEGIS London Holdings Limited (registered number: 7984021) were approved by the Board of Directors and signed on its behalf by:



D P Croom-Johnson
Managing Director
11 August 2017

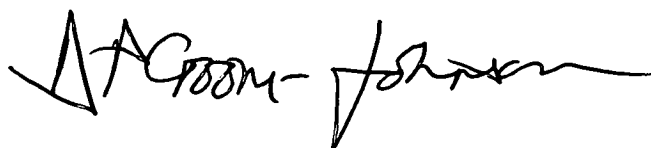
The notes 1 to 25 form an integral part of these financial statements.

Company balance sheet

(as at 31 December 2016)

	Notes	2016 £m	2015 £m
ASSETS			
Investment in subsidiaries	11	0.1	0.1
Financial investments	14	94.7	-
Cash at bank and in hand		0.5	-
Accrued income		0.2	-
TOTAL ASSETS		95.5	0.1
LIABILITIES			
Capital and reserves			
Called up share capital	21	-	-
Profit and loss account		95.2	-
Shareholders' deficit attributable to equity interests		95.2	-
Creditors			
Other creditors		0.3	0.1
TOTAL LIABILITIES		95.5	0.1

The annual accounts of AEGIS London Holdings Limited (registered number: 7984021) were approved by the Board of Directors and signed on its behalf by:



D P Croom-Johnson
Managing Director
11 August 2017

The notes 1 to 25 form an integral part of these financial statements.

Consolidated statement of shareholder's funds

	Group 2016 £m	Company 2016 £m	Group 2015 £m	Company 2015 £m
Opening shareholders' funds	153.1	-	139.3	-
Total comprehensive income for the year	49.1	100.9	34.2	20.4
Dividend paid	(5.7)	(5.7)	(20.4)	(20.4)
Closing shareholders' funds	<u>196.5</u>	<u>95.2</u>	<u>153.1</u>	<u>-</u>

Profit attributable to the Company in 2016 was £5.7m (2015: £20.4m).

Notes to the accounts

(forming part of the financial statements)

1. Basis of preparation

The financial statements are prepared in accordance with the provisions of Section 396 of the Companies Act 2006 and Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The financial statements have also been prepared in accordance with applicable accounting standards of Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014, Financial Reporting Standard 103 Insurance Contracts ("FRS 103") as issued in February 2017 and under the historical cost convention, as modified by the revaluation of investments

A cash flow statement has not been prepared, as the Group and Company are exempt under Financial Reporting Standard 102, being a wholly owned subsidiary of a group that prepares a consolidated cash flow statement, and whose financial statements are publicly available.

A statement of comprehensive income has not been presented for AEGIS London Holdings Limited Company only as the disclosure is exempt under Section 408 of the Companies Act.

Principal Accounting Policies

The principal activity of the Company is the holding of group companies of which AISL, AISL 2, AISL 3, AISL 4, and AISL 5 are corporate members of Syndicate 1225 which transacts general insurance and reinsurance business in the United Kingdom. The accounting policies and the risks and uncertainties are therefore derived directly from the syndicate.

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

Basis of consolidation

The Group combining the companies listed in note 11 was incorporated on 9 March 2012 and was accounted for as a merger in accordance with Financial Reporting Standard 6. The results and cash flows of all combining entities were brought into the financial statements of the combined entity from the beginning of the financial year. The carrying values of the assets and liabilities of the parties to the combination were not adjusted to fair value on consolidation.

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December each year. A merger reserve has been created as the difference between the nominal value of consideration given, and the nominal value of the shares received in exchange by AEGIS London Holdings Limited.

Insurance contracts premium

Gross premium written comprises premium on insurance contracts incepting during the financial year. The estimated premium income in respect of facility contracts is deemed to be written in full at the inception of the contract. Premium is disclosed before the deduction of brokerage and taxes or duties levied on them. Estimates are included for premium receivable after the period end but not yet notified, as well as adjustments made in the year to premium written in prior accounting periods.

Premium is earned over the policy contract period. Where the incidence of risk is the same throughout the contract, the earned element is calculated separately for each contract on a 365ths basis. For premium written under facilities, such as binding authorities, the earned element is calculated based on the estimated risk profile of the individual contracts involved.

The proportion of premium written, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premium. The change in this provision is taken to the income statement in order that revenue is recognised over the period of the risk.

Acquisition costs comprise brokerage incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premium they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are written off where they are no longer considered to be recoverable.

Notes to the accounts *(continued)*

Reinsurance premium ceded

Reinsurance premium ceded comprises the cost of reinsurance arrangements placed and are accounted for in the same accounting period as the related insurance contracts. The provision for reinsurers' share of unearned premium represents that part of reinsurance premium written which is estimated to be earned in following financial years.

Insurance contracts liabilities: claims

Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions. The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt. Where applicable, deductions are made for salvage and other recoveries.

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the income statement.

Claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the balance sheet date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels.

The claims provision also includes, where necessary, a reserve for unexpired risks where, at the balance sheet date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision. In determining the need for an unexpired risk provision the underwriting divisions within the Company have been regarded as groups of business that are managed together.

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. These adjustments are reflected in the financial statements for the period in which the related adjustments are made. There have been no changes in assumptions used to measure insurance assets and liabilities during the year.

Investments

Equity investments in non-convertible preference shares and non-puttable ordinary or preference shares are measured at fair value through profit or loss. All debt instruments are designated as fair value through profit or loss and are therefore also measured as such. The best evidence of fair value is a quoted price for an identical assets in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the fair value is estimated by using a valuation technique. The cost of the Syndicate investments held at the balance sheet date is deemed to be the aggregate of the value of investments held at the balance sheet date, and the cost of any new investments acquired during the year.

In the Company balance sheet, for investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

Overseas deposits

Overseas deposits are stated at the market value ruling at the balance sheet date.

Investment return

The investment return comprises investment income, investment gains less losses, and is net of investment expenses and charges.

Realised gains or losses are calculated as the difference between the net sales proceeds and their purchase price in the financial year or their valuation at the commencement of the year. Unrealised gains and losses are calculated as the

Notes to the accounts *(continued)*

difference between the valuation of investments at the balance sheet date and their purchase price in the financial year or their valuation at the commencement of the year.

All of the investment return arising in the year is reported initially in the non-technical account. A transfer is then made from the non-technical account to the technical account.

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based upon current tax rates and law. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Foreign currencies

In accordance with FRS 102, the functional currency of the Group is US dollars as this is the currency of the primary economic environment in which the Group operates and is the one in which it primarily generates and expends cash. The reporting currency of the Group is Sterling, which is common for a Company at Lloyd's.

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Group'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 Group are included in net operating expenses. Any gains or losses arising on the retranslation from functional currency to presentational currency are recorded as Other Comprehensive Income.

Insurance debtors and creditors

In the normal course of business, settlement is required to be made with Lloyd's Central Accounting, the market settlement bureau, on the basis of the net balance due to or from insurance brokers in total rather than the amounts due to or from the individual parties which they represent. The legal status of this practice of net settlement is uncertain and in the event of insolvency it is generally abandoned. Accordingly, insurance debtors and creditors, as presented, comprise respectively the totals of all the Group's individual outstanding debit and credit transactions before any offset. The resultant totals give no indication of future net cash flows.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is provided by the Group to write off the cost, less the estimated residual value, of tangible fixed assets on a straight-line basis at the following rates:

Fixtures, fittings and equipment	20.00% per annum
Computer equipment	33.33% per annum

Leases

Rentals payable under operating leases are taken to the profit and loss account on a straight-line basis over the lease term.

Pension scheme

The Group operates a defined contribution pension scheme. Charges in respect of employers' contributions are calculated by reference to eligible employees' salaries, to their age and the level of contributions that the employee voluntarily makes to the scheme. Such costs are charged to the profit and loss account. Differences between contributions payable in the current year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Notes to the accounts *(continued)*

Going concern

The Group and Company has considerable financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced and stable team. The directors believe that the Company is well positioned to manage its business risks successfully in the current economic environment.

After making enquiries, the directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. In addition, the directors have a reasonable expectation that capital will be available to support future underwriting activities. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts.

2. Principal risks and uncertainties

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

Underwriting risk

The Group accepts underwriting risk in a range of classes of business. The bias of the portfolio is towards short-tail property and accident risk but liability coverage is also underwritten.

In underwriting insurance or reinsurance policies the Group's underwriters use their skill, knowledge and data on past claims experience to evaluate the likely claims cost and therefore the premium that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit. However, due to the nature of insurance risk there is no guarantee that the premium charged will be sufficient to cover claims costs. This shortfall may originate either from insufficient premium being calculated and charged or result from an unexpected, or unprecedented, high level of claims.

A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. The business plan is subject to Lloyd's scrutiny and monitoring. Progress against this plan is monitored during the year. The Group also operates under a line guide which determines the maximum liability per policy which can be written for each class and for each underwriter. These can be exceeded in exceptional circumstances but only with the approval of senior management. The Group is also exposed to catastrophe losses which may impact many risks in a single event and again reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in the reinsurance arrangements section below.

Insurance liabilities are written through individual risk acceptances, reinsurance treaties or through facilities whereby the Group is bound by other underwriting entities. Facility arrangements delegate underwriting authority to other underwriters, or to agents acting as cover holders, that use their judgement to write risks on our behalf under clear authority levels. We have a regular process of cover holder audits performed during the year.

The insurance liabilities underwritten by the Group are reviewed on an individual risk, or contract, basis and through review of portfolio performance. All claims arising are reserved upon notification. Each quarter the entire portfolio of business is subject to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. Whilst a disciplined exercise is carried out to provide for claims notified, it is possible that known claims could develop and exceed the reserves carried. Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims and there is a possibility that claims may arise that in aggregate exceeds the reserve provision established.

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew policies and thus reducing income. Also, there is a portfolio of risk already underwritten which cannot be re-priced until renewal at the end of the policy period.

Reinsurance arrangements

The Group purchases proportional reinsurance to supplement line size and to reduce exposure on individual risks. The Group also purchases a number of excess of loss reinsurances to protect itself from severe frequency or size of losses.

Notes to the accounts (continued)

The structure of the programme and type of protection bought will vary from year to year depending on the availability and price of cover. For information on credit risk in respect of reinsurance debtors see the 'Credit Risk' section.

Risk appetite

The Group has a defined event risk appetite which seeks to limit its maximum net loss from major catastrophe event scenarios.

These maximum losses are expected only to be incurred in extreme events. The Group also adopts risk appetite maximum net limits for a number of other non-elemental scenarios including, for example, a marine collision and an offshore rig loss.

The risk appetite policy recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements.

A detailed analysis of catastrophe exposures is carried out every quarter and measured against the event risk appetite. The following assumptions and procedures are used in the process:

- the data used reflects the information supplied to the Group by insured and ceding companies. This may prove to be inaccurate or could develop during the policy period;
- the exposures are modelled using a mixture of stochastic models and underwriter input to arrive at 'damage factors' – these factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors may prove to be inadequate;
- the reinsurance programme as purchased is applied – a provision for reinsurer counterparty failure is included but may prove to be inadequate; and
- reinstatement premiums both payable and receivable are included.

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate. Furthermore, there could also be an unmodelled loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

Claims reserves

Claims reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR.

Large loss case reserves are determined through careful analysis of the individual claim, often with the advice of legal advisers.

Property catastrophe claims such as earthquake or hurricane losses can take several months, or years, to develop as adjusters visit damaged property and agree claim valuations. Until all the claims are settled it requires an analysis of the area damaged, contracts exposed and the use of models to simulate the loss against the portfolio of exposure in order to arrive at an estimate of ultimate loss to the Group. There is uncertainty over the adequacy of information and modelling of major losses for a period of several months after a catastrophe loss. Account should also be taken of factors which may influence the size of claims such as increased inflation or a change in law.

The long tail liability classes, for which a large IBNR has to be established, represent the most difficult classes to reserve because claims are notified and settled several years after the expiry of the policy concerned. This is particularly the case for US liability written on a losses occurring basis.

The use of historical development data, adjusted for known changes to wordings or the claims environment, is fundamental to reserving these classes. It is used in conjunction with the advice of lawyers and third party claims adjusters on material single claims.

The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which would reduce recoveries made.

Notes to the accounts *(continued)*

Credit risk

Credit risk is the risk that the Group becomes exposed to loss if counterparty fails to perform its contractual obligations, including failure to perform them in a timely manner. Credit risk could therefore have an impact upon the Group's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. The Group is exposed to credit risk in its investment portfolio and with its premium and reinsurance debtors.

As well as an actual failure of counterparty to perform its contractual obligations, the price of corporate bond holdings will be affected by investors' perception of a borrower's ability to perform these duties in a timely manner. Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The Group's investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies

The credit risk in respect of reinsurance debtors is primarily managed by review and approval of reinsurance security and exposure limits, prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on rating agency review and the Group's own ratings for each reinsurer. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer.

Credit risk in respect of premium debt is overseen by the Group's Security Committee. The key controls include broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance.

The following table analyses the credit rating by investment grade of financial investments, reinsurers' share of technical provisions, 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.

2016

	AAA £m	AA £m	A £m	BBB £m	BBB or less £m	Not rated £m	Total £m
Shares and unit trusts	-	-	-	-	-	52.6	52.6
Debt securities & other fixed income securities	120.8	54.4	104.8	99.1	58.4	0.6	438.1
Loans with credit institutions	48.2	52.9	-	3.4	41.7	-	146.2
Overseas deposits as investments	35.5	9.5	6.7	3.1	-	1.8	56.6
Reinsurer' share of claims outstanding	-	6.7	157.7	-	-	0.1	164.5
Cash at bank and in hand	-	-	19.1	-	-	-	19.1
Total credit risk	204.5	125.0	307.0	105.6	108.6	26.4	877.1

2015

	AAA £m	AA £m	A £m	BBB £m	BBB or less £m	Not rated £m	Total £m
Shares and unit trusts	-	-	-	-	-	50.8	50.8
Debt securities & other fixed income securities	72.0	47.9	79.5	98.2	95.3	2.8	395.8
Loans with credit institutions	42.6	44.7	0.4	-	-	-	87.7
Overseas deposits as investments	26.9	7.9	4.8	2.7	-	0.1	42.3
Reinsurer' share of claims outstanding	-	-	111.1	-	-	0.9	112.0
Cash at bank and in hand	-	-	26.0	-	-	-	26.0
Total credit risk	141.5	100.5	221.8	100.9	95.3	54.6	714.6

At 31 December 2016, total cash and investments amounted to £712.6 million, of which 89.3% relates to debt and other fixed income securities, loans guaranteed by mortgages, and equities. The residue of the portfolio relates to cash and overseas deposits. The portfolio remains high quality, as illustrated by the asset allocation table shown below. The credit ratings on debt securities are composite ratings based on Standard & Poor's, Moody's and Fitch.

Notes to the accounts *(continued)*

The following table analyses the age of reinsurance and insurance debtors, that are past due but not impaired:

2016

	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£m	£m	£m	£m	£m	£m
Reinsurance debtors	-	16.9	-	-	-	16.9
Insurance debtors	102.2	6.3	0.5	0.2	0.3	109.5
Total insurance and reinsurance debtors	102.2	23.2	0.5	0.2	0.3	126.4

2015

	Neither due nor impaired	Up to three months	Three to six months	Six months to one year	Greater than one year	Total
	£m	£m	£m	£m	£m	£m
Reinsurance debtors	-	13.0	0.1	-	0.1	13.2
Insurance debtors	82.7	7.5	0.9	0.3	0.1	91.5
Total insurance and reinsurance debtors	82.7	20.5	1.0	0.3	0.2	104.7

There have been no material changes to the Group's policies and processes for managing credit risk, or its exposure to credit risk, from the prior financial period.

Valuation risk

The Group's earnings are directly affected by changes in the valuations of the investments held in the portfolios. These valuations vary according to the movements in the underlying markets. The Group's assets are marked to market at bid price. Prices are supplied by the custodians, whose pricing processes are covered by their published annual audits, and SSAE 16 reports are obtained.

An analysis of the Group's sensitivity to price risk is presented in the table below:

	2016	2015
	£m	£m
Impact of 5% increase in S&P 500 on result	1.2	0.8
Impact of 5% decrease in S&P 500 on result	(1.2)	(0.8)
Impact of 5% increase in S&P 500 on net assets	1.2	0.8
Impact of 5% decrease in S&P 500 on net assets	(1.2)	(0.8)

Interest rate risk

Investors' expectations for interest rates will impact bond yields. The value of the Group's bond holdings is therefore subject to fluctuation as bond yields rise and fall. If the yield falls the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration. The greater the duration of a security the greater its price volatility. This risk is mitigated by continual review of our investment strategies. Overall the Group seeks to balance the potential for adverse results arising from interest rate movements against investment return. There have been no material changes to the Company's policies or processes for managing to interest rate risk, or exposure to interest rate risk, from the prior financial period.

Notes to the accounts *(continued)*

An analysis of the Group's sensitivity to interest rate risk is presented in the table below:

	2016	2015
	£m	£m
Impact of 50 basis point increase on result	(3.9)	(4.8)
Impact of 50 basis point decrease on result	3.9	4.8
Impact of 50 basis point increase on net assets	(3.9)	(4.8)
Impact of 50 basis point increase on net assets	3.9	4.8

Foreign exchange risk

Policyholders' assets are held in the base currencies of Sterling, US dollars and Canadian dollars, which represent the majority of the Group's liabilities by currency. This limits underlying foreign exchange risk.

Foreign exchange exposure also arises when business is written in non-base currencies. These transactions are converted into sterling at the prevailing spot rate once the premium is received. Consequently there is exposure to currency movements between the exposure being written and the premium being converted. Payments in non-base currencies are converted back into the underlying currency at the time a claim is to be settled; therefore the Group is exposed to exchange rate risk between the claim being made and the settlement being paid.

Foreign exchange risk is mitigated by internal monitoring which includes asset and liability matching. It is not management's intention to take speculative currency positions in order to make currency gains. Overall the Group's foreign exchange risk appetite seeks to minimise the potential for adverse results arising from foreign exchange rate movements. There have been no material changes to the Group's policies or processes for managing foreign exchange risk, or exposure to foreign exchange risk, from the prior financial period.

Liquidity risk

It is important to ensure that claims are paid as they fall due. Levels of cash are therefore managed on a daily basis. Liquid assets are also held in excess of the immediate requirements to avoid the Group having to be a forced seller of any of its assets, which may result in prices below market value being realised, especially in periods of below normal investment market activity. This practice of limiting the extent of duration divergence between the policyholders' assets and the liabilities helps to reduce the risk of a cash flow mismatch.

Liquidity in the event of a major disaster is tested regularly using internal cash flow forecasts and realistic disaster scenarios.

The table below shows the maturity profiles of the Syndicate's claims outstanding and creditor balances

2016

	0-1 year	1-3 years	3-5 years	>5 years	Total
	£m	£m	£m	£m	£m
Claims Outstanding	152.5	262.4	100.3	30.7	545.9
Creditors	46.7	0.2	-	-	46.9
Total claims outstanding and creditors	199.2	262.6	100.3	30.7	592.8

2015

	0-1 year	1-3 years	3-5 years	>5 years	Total
	£m	£m	£m	£m	£m
Claims Outstanding	123.3	212.2	81.1	24.8	441.4
Creditors	37.5	0.1	-	-	37.6
Total claims outstanding and creditors	160.8	212.3	81.1	24.8	479.0

Notes to the accounts *(continued)*

Regulatory risk

Regulatory risk is the risk that the Group fails to meet the regulatory requirements of the Prudential Regulation Authority, Financial Conduct Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. AEGIS London has a Compliance Officer who monitors regulatory developments and assesses the impact on our policy.

Operational risk

Operational risk is the risk that failure of people, systems or processes leads to losses to the Group. The Company manages these risks through internal compliance monitoring and the use of detailed procedure manuals.

In addition, AEGIS London has an Internal Audit department which assists the business to meet the strategic and operational objectives of the Group through the provision of independent appraisal of the adequacy and effectiveness of internal controls in operation and to provide reasonable assurance as to the adequacy of systems and procedures to enable compliance with all relevant regulatory and legal requirements.

3. Segmental analysis

The directors regard the transaction of general insurance business in the United Kingdom as the only business segment.

2016	Gross premiums written £m	Gross premium earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m
Marine, aviation and transport	58.0	60.3	(48.1)	(16.0)	1.1
Fire and other damage to property	142.6	136.4	(72.3)	(38.6)	(7.6)
Third party liability	87.4	76.7	(42.8)	(23.8)	(3.7)
Miscellaneous	4.8	4.2	(1.9)	(7.9)	(0.3)
	<u>292.8</u>	<u>277.6</u>	<u>(165.1)</u>	<u>(86.3)</u>	<u>(10.5)</u>
Reinsurance acceptances	83.9	89.4	(44.7)	(22.9)	(5.7)
Quota share agreement	-	-	-	-	(18.5)
	<u>376.7</u>	<u>367.0</u>	<u>(209.8)</u>	<u>(109.2)</u>	<u>(34.7)</u>

Notes to the accounts *(continued)*

2015	Gross premiums written £m	Gross premium earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m
Marine, aviation and transport	62.8	70.0	(29.0)	(20.4)	(5.6)
Fire and other damage to property	124.9	121.8	(41.9)	(40.5)	(12.1)
Third party liability	66.4	66.0	(45.0)	(21.5)	(0.9)
Miscellaneous	0.7	0.5	(0.1)	(7.4)	(0.1)
	<u>254.8</u>	<u>258.3</u>	<u>(116.0)</u>	<u>(89.8)</u>	<u>(18.7)</u>
Reinsurance acceptances	78.1	93.9	(36.8)	(25.3)	(8.2)
Quota share agreement	-	-	-	-	(8.7)
	<u>332.9</u>	<u>352.2</u>	<u>(152.8)</u>	<u>(115.1)</u>	<u>(35.6)</u>

The net assets of the Company are managed as a whole and are not allocated to a separate business segment.

4. Brokerage

Gross premiums written are stated before the deduction of brokerage. Brokerage for the year was £91.2million (2015: £77.3 million).

5. Profit on ordinary activities before taxation

Profit on ordinary activities is stated after charging:

	2016 £'000	2015 £'000
Operating lease charges	543.5	438.4
Auditor's remuneration:		
- Audit of the company's annual accounts	8.7	8.4
- Audit of the company's subsidiaries	223.7	214.0
Non audit fees:		
- Taxation services	57.8	168.6
- Consultancy services	-	361.7
	<u> </u>	<u> </u>

6. Net operating expenses

	2016 £m	2015 £m
Acquisition expenses	91.3	77.3
Change in net deferred acquisition costs	(4.7)	3.7
Administrative expenses	34.0	31.5
Loss/(gain) on exchange	(11.4)	2.6
	<u>109.2</u>	<u>115.1</u>

Notes to the accounts *(continued)*

7. Staff costs

Employees

At 31 December 2016 the Group employed 114 members of staff (2015: 113). The average monthly number of employees including executive directors during the year was 114 (2015:113) analysed as follows:

	2016	2015
Administration and finance	51	49
Underwriting and reinsurance	55	57
Claims	8	7
	<u>114</u>	<u>113</u>

Staff costs (including directors' remuneration):

	2015 £m	2015 £m
Wages and salaries	18.1	20.5
Social security costs	2.4	2.7
Other pension costs	1.4	1.5
	<u>21.9</u>	<u>24.7</u>

Included within wages and salaries above is profit-related remuneration payable to staff of £9.3 million (2015: £9.6 million).

Directors' remuneration:

	2016 £m	2015 £m
Emoluments	7.6	8.4
Pension contributions	0.2	0.3
	<u>7.8</u>	<u>8.7</u>

	2016 £m	2015 £m
Highest paid director's total emoluments	2.1	2.3

Four directors retirement benefits are accruing under a defined contribution pension scheme (2015: two)

Director's remuneration payments for the group were made by AEGIS Managing Agency Limited, a subsidiary of AEGIS London Holdings Limited. The emoluments of the executive directors in respect of services provided to AEGIS London Holdings Limited Company during the period were £nil (2015 £nil).

Defined contribution pension scheme:

The Group's contributions for the year are shown above. The assets for the scheme are held separately from those of the Group's in an independently administered fund. At 31 December 2016 no contributions had been prepaid (2015: £nil).

Notes to the accounts *(continued)*

8. Prior years' claims provision

Material (under)/over provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2016 £m	2015 £m
Marine, aviation and transport	6.4	6.9
Fire and other damage to property	9.6	10.0
Third party liability	5.7	10.7
Miscellaneous	0.2	-
Reinsurance acceptances	5.9	8.8
Total	<u>27.8</u>	<u>36.4</u>

9. Tax charge on ordinary activities

a) Analysis of the tax charge in the period

	2016 £m	2015 £m
- UK Corporation tax charge and prior year adjustments	15.6	5.9
- US taxes	4.5	9.9
- US tax prior year adjustment	2.8	1.8
- Other foreign tax suffered	-	0.3
- Total current tax charge for the year	<u>22.9</u>	<u>17.9</u>
- Deferred tax credit (Note 19)	<u>(6.1)</u>	<u>(5.5)</u>
Total charge for the year	<u>16.8</u>	<u>12.4</u>

Notes to the accounts *(continued)*

b) Factors affecting the tax charge for the year

The tax charge for the year is different from the standard rate of corporation tax in the UK.
The differences are explained below:

	2016 £m	2015 £m
Profit on ordinary activities before tax	46.3	39.8
Profit on ordinary activities multiplied by the corporation tax rate of 20% (2015:20.25%)	9.3	8.1
Effects of:		
Overseas tax	7.2	11.8
UK deferred tax movements not recognised	5.6	0.2
Non-taxable dividend income / non-deductible items	(0.1)	0.2
Foreign tax suffered	-	0.3
Adjustments in respect of prior periods	(0.3)	(2.6)
Double taxation relief	(0.5)	(0.6)
Overseas deferred tax movement	(4.3)	(5.0)
Total tax charge for the year	16.8	12.4

c) Factors that may affect future tax charges

A 953d election has been made under United States tax legislation effectively treating AEGIS Electric & Gas International Services Limited as a US corporation for tax purposes.

Other companies within the Group are subject to the blended UK corporation tax rate of 20% for the year (2015: 20.25%).

Finance (No. 2) Act 2015 enacted reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020. As these reductions were substantively enacted prior to 31 December 2016, they have been reflected in these financial statements.

Notes to the accounts *(continued)*

10. Tangible fixed assets Group only

	Fixtures, fittings and equipment £m	Computer equipment £m	Total £m
Cost			
At 1 January, 2016	1.6	2.3	3.9
Additions	0.1	-	0.1
At 31 December, 2016	1.7	2.3	4.0
Depreciation			
At 1 January, 2016	(1.5)	(2.2)	(3.7)
Charge for year	(0.1)	-	(0.1)
At 31 December, 2016	(1.6)	(2.2)	(3.8)
Net book value			
At 31 December, 2016	0.1	0.1	0.2
At 1 January, 2016	0.1	0.1	0.2

11. Investments in subsidiaries

	Group 2016 £'000	Company 2016 £'000	Group 2015 £'000	Company 2015 £'000
Investment in subsidiaries	-	50.1	-	50.1

Investments in the companies in the table below were received on incorporation of AEGIS London Holdings Limited in March 2012 for £100 share capital issued. The £50,000 investment in AEGIS London Services Limited was also transferred to the Company from AEGIS Managing Agency Limited in 2012.

Subsidiary undertakings relate to the following investments:

	Country of incorporation	Principal activity	Holding	%
AEGIS London Services Limited	United Kingdom	Service Company	Ordinary shares	100
AEGIS Managing Agency Limited	United Kingdom	Managing agent	Ordinary shares	100
AEGIS Electric & Gas International Services Limited	United Kingdom	Corporate member	Ordinary shares	100
AEGIS Electric & Gas International Services 2 Limited	United Kingdom	Corporate member	Ordinary shares	100
AEGIS Electric & Gas International Services 3 Limited	United Kingdom	Corporate member	Ordinary shares	100
AEGIS Electric & Gas International Services 4 Limited	United Kingdom	Corporate member	Ordinary shares	100
AEGIS Electric & Gas International Services 5 Limited	United Kingdom	Corporate member	Ordinary shares	100
AEGIS London Adjusting (Canada) Inc	Canada	Service Company	Ordinary shares	100
AEGIS London Services (Canada) Inc	Canada	Service Company	Ordinary shares	100

The Registered office of all Companies based in the United Kingdom is 33 Gracechurch Street, London, EC3V 0BT.

Notes to the accounts *(continued)*

The financial statements of AEGIS London Services (Canada) Inc (Registration no, 778547-0) and AEGIS London Adjusting (Canada) Inc (Registration no, 778546-1) are not audited as the Group has applied the exemption under Section 479A of the Companies Act. The addresses of both Canadian companies is 40 King Street West, 2100 Scotia Plaza, Toronto, Ontario M5H 3C2.

12. Debtors arising out of direct insurance and reinsurance operations Group only

	2016 £m	2015 £m
Debtors arising out of direct insurance operations	109.5	91.5
Debtors arising out of reinsurance operations	16.9	13.2
	<u>126.4</u>	<u>104.7</u>

13. Creditors arising out of direct insurance and reinsurance operations Group only

	2016 £m	2015 £m
Creditors arising out of direct insurance operations	3.1	5.7
Creditors arising out of reinsurance operations	43.8	31.9
	<u>46.9</u>	<u>37.6</u>

14. Financial investments Group and Company

Group

	At market valuation 2016 £m	At market valuation 2015 £m	At cost 2016 £m	At cost 2015 £m
Shares & other variable yield securities & unit trusts	52.6	50.8	49.3	52.7
Debt securities & other fixed income securities	438.1	395.7	435.7	412.0
Loans with credit institutions	146.2	87.7	147.0	88.9
	<u>636.9</u>	<u>534.2</u>	<u>632.0</u>	<u>553.6</u>

	2016 £m	2015 £m
Financial assets		
Measured at undiscounted amount receivable		
Insurance and reinsurance receivables (see note 12)	126.4	104.7
Other debtors	43.3	11.7
Financial liabilities		
Measured at undiscounted amount payable		
Insurance and reinsurance payables (see note 13)	46.9	37.6
Other creditors including taxation and social security	<u>89.0</u>	<u>43.7</u>

Notes to the accounts *(continued)*

All overseas deposits £56.6 million (2015:£42.3 million) are held at fair value through profit or loss.

Of the above categories all shares and other variable yield security investments (£52.6million) together with all loans with credit institutions (£146.2million) are listed on recognised stock exchanges. Debt securities and other fixed income securities listed on recognised stock exchanges have a carrying value of £309.7million (2015: £119.3million).

The company classifies its financial instruments held at fair value in its balance sheet 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

The table below analyses financial instruments and overseas deposits held at fair value in the company's balance sheet at the reporting date by its level in the fair value hierarchy.

2016

	Level 1	Level 2	Level 3	Balance Sheet Position
	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	52.6	-	-	52.6
Debt securities and other fixed income securities	93.6	344.5	-	438.1
Loans credit institutions	-	146.2	-	146.2
Overseas deposits	8.7	47.9	-	56.6
Total	154.9	538.6	-	693.5

2015

	Level 1	Level 2	Level 3	Balance Sheet Position
	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	50.8	-	-	50.8
Debt securities and other fixed income securities	84.5	311.2	-	395.7
Loans credit institutions	-	87.7	-	87.7
Overseas deposits	32.6	9.7	-	42.3
Total	167.9	408.6	-	576.5

Company

	At market valuation	At market valuation	At cost	At cost
	2016	2015	2016	2015
	£m	£m	£m	£m
Shares & other variable yield securities & unit trusts	52.6	-	49.3	-
Debt securities & other fixed income securities	33.8	-	34.2	-
Loans with credit institutions	8.3	-	8.4	-
	<u>94.7</u>	<u>-</u>	<u>91.9</u>	<u>-</u>

Notes to the accounts *(continued)*

	Level 1	Level 2	Level 3	Balance Sheet Position
	£m	£m	£m	£m
Shares and other variable yield securities and unit trusts	52.6	-	-	52.6
Debt securities and other fixed income securities	10.0	23.8	-	33.8
Loans credit institutions	-	8.3	-	8.3
Total	62.5	32.2	-	94.7

15. Technical provisions Group only

	Provision for unearned premium	Claims outstanding	Deferred Acquisition costs	Total
	£m	£m	£m	£m
Gross				
At 1 January 2016	(197.7)	(441.4)	41.8	(597.3)
Movement in technical account	(9.7)	(34.1)	4.7	(39.1)
Foreign exchange movement	(33.3)	(70.4)	7.5	(96.2)
At 31 December 2016	(240.7)	(545.9)	54.0	(732.6)
Reinsurance				
At 1 January 2016	39.1	112.0	-	151.1
Movement in technical account	7.2	33.2	-	40.4
Quota share agreement	(18.5)	-	-	(18.5)
Foreign exchange movement	22.4	19.3	-	41.7
At 31 December 2016	50.2	164.5	-	214.7
Net				
At 31 December 2016	(190.5)	(381.4)	54.0	(571.9)
At 31 December 2015	(158.6)	(329.4)	41.8	(446.2)

The exchange rate movement reflects the opening provision at opening versus closing rates of exchange together with the difference between the technical account movement at average versus closing rates of exchange.

Notes to the accounts *(continued)*

16. Claims development

The development of earned claims and of claims outstanding 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 2016 in all cases.

2016

Gross ultimate claims	2011&prior	2012	2013	2014	2015	2016	
At end of underwriting year		59%	57%	58%	61%	64%	
One year later		52%	62%	53%	56%		
Two years later		48%	58%	55%			
Three years later		46%	58%				
Five years later		45%					
Total ultimate losses (£m)	2,280.9	189.0	244.4	251.3	229.5	267.2	3,462.3
Less paid claims (£m)	(2,174.4)	(144.5)	(173.3)	(143.2)	(64.1)	(26.4)	(2,725.9)
Less unearned portion of ultimate losses (£m)	-	-	-	(8.2)	(18.4)	(163.9)	(190.5)
Gross claims liabilities (£m)	106.5	44.5	71.1	99.9	147.0	76.9	545.9

Net ultimate claims	2011&prior	2012	2013	2014	2015	2016	
At end of underwriting year		57%	57%	56%	58%	58%	
One year later		52%	57%	51%	53%		
Two years later		47%	54%	52%			
Three years later		45%	52%				
Five years later		44%					
Total net ultimate losses (£m)	1,590.3	149.6	182.5	197.8	180.5	194.2	2,490.6
Less paid claims (£m)	(1,512.5)	(118.7)	(139.3)	(125.8)	(58.0)	(21.5)	(1,971.4)
Less unearned portion of ultimate losses (£m)	-	-	-	(3.9)	(12.9)	(120.9)	(137.7)
Net claims liabilities (£m)	77.8	30.9	43.2	68.1	109.6	51.8	381.4

Notes to the accounts *(continued)*

2015

Gross reserves and payments	2011	2012	2013	2014	2015	2016
	£m	£m	£m	£m	£m	£m
At end of underwriting year	109.1	131.7	106.5	116.2	105.0	102.9
One year later	241.6	204.9	251.0	223.3	211.1	-
Two years later	250.0	197.6	247.3	247.1	-	-
Three years later	239.8	192.8	243.3	-	-	-
Four years later	242.3	187.1	-	-	-	-
Five years later	240.3	-	-	-	-	-
Cumulative payments	199.6	144.5	173.3	143.2	64.1	26.4

Net reserves and payments	2011	2012	2013	2014	2015	2016
	£m	£m	£m	£m	£m	£m
At end of underwriting year	97.1	98.8	87.5	93.6	81.1	72.9
One year later	194.0	167.1	194.2	181.4	167.6	-
Two years later	196.4	157.9	190.7	195.4	-	-
Three years later	183.8	152.0	182.3	-	-	-
Four years later	184.1	148.9	-	-	-	-
Five years later	182.3	-	-	-	-	-
Cumulative payments	156.3	118.7	139.3	125.8	58.0	21.5

17. Deferred tax

Unrecognised UK deferred tax

	Underwriting results	Other timing differences	Total
	£m	£m	£m
At 1 January 2016	(12.0)	(7.0)	(19.0)
Prior year adjustment to deferred tax	0.2	0.3	0.4
Reduction in opening deferred tax liability due to change in corporation tax rate	0.6	0.3	0.9
Current year deferred tax movement	2.9	1.6	4.5
At 31 December 2016	(8.3)	(4.8)	(13.1)
Offset of UK deferred tax following election to tax as a US corporation	8.3	4.8	13.1
Deferred tax balance in balance sheet as at 31 December 2016	-	-	-

The UK deferred tax liability of £13.1m has not been recognised, as the crystallisation of the UK deferred tax liability will give rise to foreign tax credits which the Company considers it will be able to utilise against its US taxes arising from future profits subject to US tax. In addition, any foreign tax credits could be used against foreign source income of the Company's immediate parent.

Notes to the accounts *(continued)*

	US deferred earnings	Capital gains	Total deferred tax liability	Deferred tax asset - AMAL	Total
Recognised US deferred tax	£m	£m	£m	£m	£m
At 1 January 2016	(10.7)	-	(10.7)	2.1	(8.6)
Prior year adjustment to deferred tax	(1.1)	(0.5)	(1.6)	0.7	(0.9)
Current year deferred tax movement	5.4	(1.0)	4.4	0.8	5.2
Tax rate change					
At 31 December 2016	<u>(6.4)</u>	<u>(1.5)</u>	<u>(7.9)</u>	<u>3.6</u>	<u>(4.3)</u>
Total deferred tax credit / (charge) 2016					4.3
Total deferred tax credit / (charge) 2015					<u>5.4</u>

18. Other debtors

	2016 £m	2015 £m
Amount receivables in respect reinsurance profit participations	10.7	-
Amount receivable from AEGIS Holding Inc	1.0	0.7
Corporation tax asset	-	5.7
Other debtors	2.8	5.3
	<u>14.5</u>	<u>11.7</u>

19. Other creditors: amounts falling due within one year

	2016 £m	2015 £m
Amount due to AEGIS Holding Inc	4.2	25.4
Corporation tax liability	30.1	14.3
Amounts due to reinsurance profit participations	21.5	3.4
Other taxes and social security costs	0.5	0.4
Other creditors	0.2	0.2
	<u>56.5</u>	<u>43.7</u>

20. Creditors: amounts falling due after more than one year

	2016 £m	2015 £m
Accruals and deferred income	21.0	15.0
Subordinated loan provided by the ultimate parent and controlling entity	2.0	2.0
	<u>23.0</u>	<u>17.0</u>

The loan has no fixed repayment date, is subordinated to other creditors of the Company and is interest free from the ultimate parent company.

Notes to the accounts *(continued)*

21. Share capital

	2016 £	2015 £
Allotted, called up and fully paid – 100 £ 1 Ordinary shares	100	100

The share capital of the company was allotted during 2012.

22. Operating lease commitments

There were no operating lease commitments due in more than five years as at 31 December 2016.

	2016 £m	2016 £m	2016 £m	2015 £m
	Plant & machinery	Other leases	Total	Total
Total operating lease commitments	-	2.0	2.0	2.5
Less: amounts due in more than one year	-	(1.4)	(1.4)	(2.0)
Operating lease commitment payable in the next year	-	0.6	0.6	0.5

23. Commitments

There were no capital commitments at 31 December 2016 (2015: £nil). The assets of the Group are subject to restrictions on use or transfer as follows:

a) Assets of the 2014, 2015 and 2016 years of account of Syndicate 1225 as at 31 December 2016 amounting to £475.6 million (as at 31 December 2015 in respect of the 2013, 2014 and 2015 years of account: £418.0 million) are held subject to the Lloyd's Premium Trust Deeds. Profits cannot be fully released from the Premium Trust Fund until the close of the underwriting years of account.

b) The Group's ultimate parent has provided Funds at Lloyd's ("FAL") of \$65 million (2015: \$80 million) to support the 2017 year of account underwriting by means of a Letter of Credit in favour of the Corporation of Lloyd's. Furthermore as at 31 December 2016 AISL has committed £45.5 million of its assets in favour of the Corporation of Lloyd's to support the Company's 2017 year of account underwriting.

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority 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 complies 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 1225 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').

Notes to the accounts *(continued)*

The syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

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

24. Related party transactions

The Group has taken advantage of the exemption allowed by FRS 102 not to disclose related party transactions with its parent undertaking and fellow subsidiary undertakings. No contract existed at any time during the period in which a director or key manager was materially interested or which required disclosure as a related party transaction as defined under FRS 102.

25. Ultimate parent company

The Company's immediate parent is AEGIS Holding Inc, incorporated in the USA and the ultimate parent and controlling party is Associated Electric & Gas Insurance Services Limited (AEGIS), incorporated in Bermuda. AEGIS is the largest group of undertakings for which group accounts are prepared. A copy of the group accounts may be obtained from 1 Meadowlands Plaza, East Rutherford, NJ 07073.

Independent Auditor's Report to the Shareholders of AEGIS London Holdings Limited

We have audited the financial statements of AEGIS London Holdings Limited for the year ended 31 December 2016 which comprise the consolidated statement of total comprehensive income, the consolidated balance sheet, the company balance sheet, the consolidated statement of shareholder's funds and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company'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 Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2016 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the Shareholders of AEGIS London Holdings Limited (*continued*)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.



Alexander Arterton BSc, ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
11 August 2017

Administration

Company Secretary:	Hayley Connell
Registered Office:	33 Gracechurch Street, London, EC3V 0BT
Registered Number:	07984021
Lawyers:	Hempsons, The Exchange, Station Parade, Harrogate, HG1 1DY
Bankers:	Barclays Bank PLC, 1 Churchill Place, London, E14 5HP

AEGIS Syndicate 1225 at Lloyd's of London ("AES 1225") commenced operations in 1999. AEGIS Syndicate 1225 (TM) operations are supported by AEGIS London, also known as AEGIS Managing Agency Limited ("AMAL"), which provides professional staff and services for AES 1225. AEGIS Electric & Gas International Services Limited ("AEGIS International") is a corporate member of Lloyd's and the sole capital provider of AES 1225. AEGIS International, AMAL, AEGIS London Services Limited, AEGIS Electric & Gas International Services 2 Ltd, AEGIS Electric & Gas International Services 3 Ltd, AEGIS Electric & Gas International Services 4 Ltd and AEGIS Electric & Gas International Services 5 Ltd are subsidiaries of AEGIS through AEGIS Holding Inc.