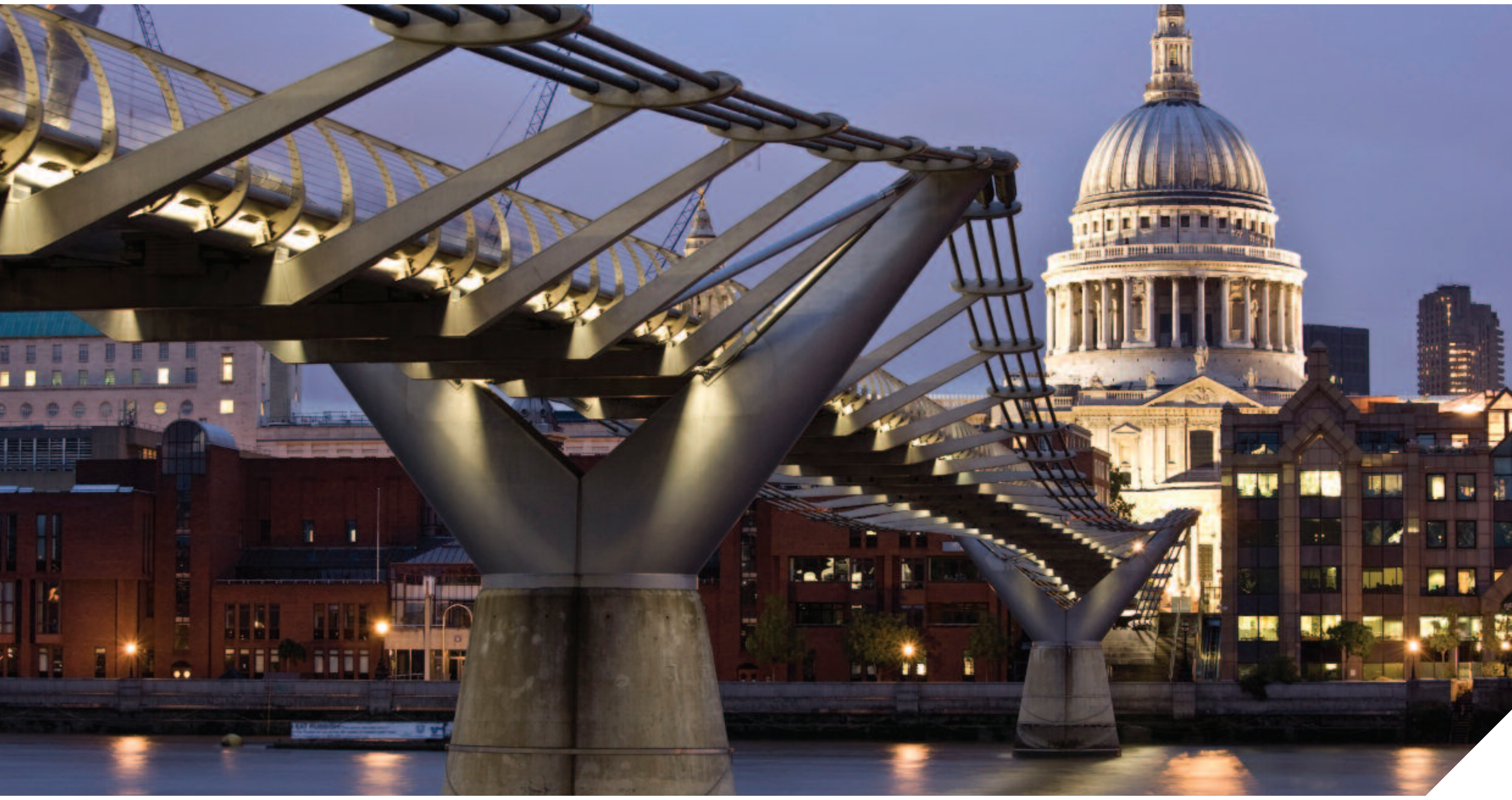

ANNUAL REPORT 2016

Great Lakes Insurance SE

(formerly Great Lakes Reinsurance (UK) SE)

Risk Solutions

Munich RE

CONTENTS

DIRECTORY

Supervisory Board

C-U. Kroll
A. Wettemann
C. Carus
C. Prussog

Executive Board

A. Stegner (Chairman)
S. Pasternak
T. Klauß

Registered Office

Königinstrasse 107, 80802, Munich, Germany

(Formerly
30 Fenchurch Street
London EC3M 3AJ)

Bankers

Barclays Bank PLC
The Bank of New York Mellon
HSBC Bank PLC
ANZ Banking Group Limited
Aargauische Kantonalbank
Zürcher Kantonalbank
CACEIS Bank Deutschland GmbH
RBC Investor & Treasury Services
Deutsche Bank AG
HypoVereinsbank
JP Morgan Chase & Co
Intesa Sanpaolo
Commonwealth Bank
DZ Bank

Registered Number

HRB230378 (formerly SE000083)

NON-STATUTORY DIRECTORS' REPORT

The directors present their non-statutory report and financial statements for the year ended 31 December 2016.

Principal Activities

Great Lakes Insurance SE ("The Company"), formerly Great Lakes Reinsurance (UK) SE, is a wholly owned subsidiary of Münchener Rückversicherungs-Gesellschaft Aktiengesellschaft in München ("Munich Re"), a limited liability company incorporated in Germany and is therefore part of the Munich Re Group ("The Group"). The Company acts as a specialist provider of insurance services for the Group by using its licenses and relationship with other Group members to develop insurance solutions for their customers.

In the Annual Report 2015 the Company described its plans to relocate its head office operations to Munich to further support Group growth objectives and on 30 December 2016 the Company was registered as a European SE in Germany. From that date the corporate headquarters moved to Munich in Germany and the UK business has operated as a branch of the German company. Since that date the Company has not been required to prepare financial statements in accordance with UK legislation. The financial statements set out on pages 7 to 38 have been prepared to provide an audit record of the Company's financial position as at 31 December 2016.

Solvency

Solvency II as a new regulatory regime for European insurance and reinsurance companies came into force on 1 January 2016. Great Lakes started to operate with a standard formula approach in the new regulatory regime and in March 2016 the Company handed in its final IMAP application documentation as a change to the Munich Re Group internal model and approval for this change was received in September 2016 from the Group's lead regulatory authority the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin") in Germany. Since then, Great Lakes uses its own internal model for calculating its solvency position. As at 31 December 2016 the Company's Own Funds was £401.7 million, and the Solvency Capital Requirement and Minimum Capital Requirement calculated using the internal model were £168.7 million and £50.6 million respectively, resulting in a Solvency Capital Ratio of 238% and a Minimum Capital Ratio of 794%.

Business Review

The Company uses two distinct models for accessing insurance business – delegated acceptances via agency agreements and individual acceptances of large single risks. Overall, gross written premium in 2016 was 12.3% higher than in 2015. Agency sourced business continues to provide the dominant share of the Company's gross written premium. In 2016 the Company concluded agreements with several new agents. These new agreements, in addition to growth in motor business led to this premium increase. The agency book is constantly monitored through a suite of quarterly key risk indicators to ensure the quality of the underlying business is maintained by the underlying MGAs. The key focus remains on profitable underwriting and cycle management. The Company retains the business it underwrites through the Corporate Insurance Partner ("CIP") division based in London as well as a proportion of the Australian and Swiss facilitated business. CIP offers a highly respected underwriting service to the world's 5,000 largest companies and leading players in their industries as well as their captives. Standard and bespoke solutions in the classes of Property, Engineering, Energy, and Casualty are developed through close cooperation with clients. During the year, the decision was taken to cease underwriting new business for a number of agencies in Australia due to the negative technical profitability of the underlying business. Great Lakes is in the process of assuming a run-off portfolio from its former business partner Calliden Insurance in Australia and is studying the options under which the remaining book of business shall be conducted in the future.

Overall the Company's profit before tax was £13.9 million, compared to a loss of £12.8 million in 2015. The 2015 result was caused by large loss activity in the CIP retained portfolio. In contrast, CIP experienced a very benign year in regard to losses in the current financial year.

Proposed Dividend

The Directors do not recommend the payment of a dividend (2015: £Nil).

Directors
The directors who served as UK registered directors during the financial year, and up until the date of the re-registration of the Company are as follows.

A.J. Medniuk
N.H.H. Smith
T.J. Carroll
C-U. Kroll
A. Stegner
S. Pasternak

On 30 December 2016 all directors resigned their UK directorships and the following were appointed as directors registered in Germany.

Supervisory Board
C-U. Kroll
A. Wettemann
C. Carus
C. Prussog

Executive Board
A. Stegner
S. Pasternak
T. Klauß

This report was approved by the Executive Board on 17 March 2017 and by the Supervisory Board on 24 March 2017, and signed on its behalf by

Political contributions
The Company made no political donations or incurred any political expenditure during the year.

Major Shareholdings
The Company is a wholly owned subsidiary of Munich Re, a company incorporated in Germany. Copies of the Munich Re group accounts are available from Königinstrasse 107, 80802, Munich, Germany.

A. Stegner
Chief Executive Officer

C-U. Kroll
Chairman of the Supervisory Board

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE NON-STATUTORY DIRECTORS' REPORT AND NON-STATUTORY THE FINANCIAL STATEMENTS

The directors are responsible for preparing the non-statutory Directors' Report and the non-statutory financial statements.

United Kingdom company law applied to the Company up until 30 December 2016. These non-statutory financial statements, which have been prepared to provide a record of the Company's financial position as at 31 December 2016, are therefore non-statutory, but, as described in note 1, have been prepared in accordance with UK Generally Accepted Accounting Practice.

The directors approve the non-statutory financial statements being 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 non-statutory financial statements, the directors:

- 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 non-statutory financial statements; and
- prepare the non-statutory 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. 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 are responsible for the maintenance and integrity of the corporate and financial information included in the Company's website.

STATEMENT OF PROFIT OR LOSS

Technical Account - General Business
for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Gross premiums written	4	2,015,816	1,795,282
Outwards reinsurance premiums		1,875,933	1,683,504
Net premiums written		**139,883**	**111,778**
Change in the gross provision for unearned premiums	16	(17,174)	14,066
Change in the provision for unearned premiums - reinsurers' share	16	(19,924)	6,952
Change in the net provision for unearned premiums		2,750	7,114
Earned premiums, net of reinsurance		**142,633**	**118,892**
Investment return allocated from the non-technical account		5,227	10,621
Other technical income, net of reinsurance	7	27,601	27,335
TECHNICAL INCOME		**175,461**	**156,848**

The notes on pages 13 to 38 form part of these non-statutory financial statements.

STATEMENT OF PROFIT OR LOSS

Technical Account - General Business (continued)
for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Gross claims paid		1,095,995	784,482
Reinsurers' share		1,012,324	719,227
Net paid claims		**83,671**	**65,255**
Change in the gross provision for claims	16	185,913	408,695
Reinsurers' share	16	189,799	369,165
Change in the net provision for claims		**(3,886)**	**39,530**
Claims incurred net of reinsurance		79,785	104,785
Net operating expenses	8	83,944	66,533
Change in unexpired risk provision	16	(234)	3,455
TECHNICAL EXPENSES		**163,495**	**174,773**
BALANCE ON THE TECHNICAL ACCOUNT - GENERAL BUSINESS		**11,966**	**(17,925)**

The notes on pages 13 to 38 form part of these non-statutory financial statements.

STATEMENT OF PROFIT OR LOSS

Non-Technical Account
for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
BALANCE ON THE TECHNICAL ACCOUNT - GENERAL BUSINESS		**11,966**	**(17,925)**
INVESTMENT RETURN			
Investment income	5	11,711	12,635
Investment expenses and charges	6	(6,484)	(2,014)
Total investment return		5,227	10,621
Investment return allocated to the technical account		(5,227)	(10,621)
		11,966	**(17,925)**
Exchange gains (losses)		1,918	5,112
PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAX	4	**13,884**	**(12,813)**
Tax (charge) credit on ordinary activities	10	(5,715)	1,964
PROFIT (LOSS) ON ORDINARY ACTIVITIES AFTER TAX		**8,169**	**(10,849)**

The profit for the year and the loss for the prior year relate to continuing activities.
The notes on pages 13 to 38 form part of these non-statutory financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
PROFIT (LOSS) FOR THE YEAR		**8,169**	**(10,849)**
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR			
Currency translation gains (losses) on foreign currency net investments		13,099	(3,444)
Unrealised gains and losses on the Fair Value of available for sale investments		3,600	(9,030)
Tax (charge) credit on unrealised gains and losses on the Fair Value of available for sale investments	10	(540)	1,829
OTHER COMPREHENSIVE PROFIT (LOSS) FOR THE YEAR AFTER TAX		**16,159**	**(10,645)**
TOTAL COMPREHENSIVE PROFIT (LOSS) FOR THE YEAR		**24,328**	**(21,494)**

The notes on pages 13 to 38 form part of these non-statutory financial statements.

BALANCE SHEET

Assets
as at 31 December 2016

	Notes	2016 £'000	2015 £'000
INVESTMENTS			
Financial investments	11	653,484	526,840
		653,484	**526,840**
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Unearned premium	16	920,507	836,743
Claims outstanding	16	3,250,337	2,860,910
		4,170,844	**3,697,653**
DEBTORS			
Arising out of direct insurance operations	12	838,985	834,275
Deposit assets		23,252	41,577
Deferred tax	10	365	4
Taxation		5,786	7,910
Other debtors	13	5,685	47,540
		874,073	**931,306**
OTHER ASSETS			
Cash at bank	14	**85,752**	**133,927**
PREPAYMENTS AND ACCRUED INCOME			
Accrued interest		2,546	4,231
Deferred acquisition costs	18	278,351	224,298
		280,897	**228,529**
TOTAL ASSETS		**6,065,050**	**5,518,255**

The notes on pages 13 to 38 form part of these non-statutory financial statements.

BALANCE SHEET

Liabilities
as at 31 December 2016

	Notes	2016 £'000	2015 £'000
EQUITY			
Share capital	15	114,000	114,000
Foreign exchange translation reserve		8,297	(4,802)
Other reserves		4,162	1,102
Retained earnings		227,308	219,139
Total equity		**353,767**	**329,439**
TECHNICAL PROVISIONS			
Unearned premium	16	1,015,572	923,131
Claims outstanding	16	3,605,686	3,180,529
Unexpired risk reserve	16	3,221	3,455
		4,624,479	**4,107,115**
PROVISIONS FOR OTHER RISKS AND CHARGES	19	**1,200**	**1,200**
CREDITORS			
Arising out of direct insurance operations	20	738,698	760,505
Deposit liabilities		33,291	81,822
Taxation		912	165
Deferred Tax	10	1,158	-
Other creditors	21	47,529	26,979
		821,588	**869,471**
ACCRUALS AND DEFERRED INCOME			
Deferred reinsurance commissions	18	250,408	198,586
Deferred overrider commissions		13,608	12,444
		264,016	**211,030**
TOTAL LIABILITIES AND EQUITY		**6,065,050**	**5,518,255**

The notes on pages 13 to 38 form part of these non-statutory financial statements.

Approved by the Executive Board on 17 March 2017 and by the Supervisory Board on 24 March 2017, and signed on its behalf by.

A.Stegner
Chief Executive Officer

C-U Kroll
Chairman of the Supervisory Board

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Share capital £'000	Foreign exchange translation reserve £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 31 December 2015	114,000	(4,802)	1,102	219,139	329,439
Profit or loss	-	-	-	8,169	8,169
Other comprehensive income	-	13,099	3,060	-	16,159
Balance at 31 December 2016	**114,000**	**8,297**	**4,162**	**227,308**	**353,767**

NOTES TO THE ACCOUNTS

1. Basis of preparation of the Non-Statutory Financial Statements

From 30 December 2016 the Company has ceased to be registered in the UK and is consequently not required to prepare statutory financial statements in accordance with UK legislation. The directors have elected to prepare these non-statutory financial statements to provide a record of the state of the Company's affairs at 31 December 2016 and the result for the year then ended.

These non-statutory financial statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. In conjunction with FRS 102 the Company has applied IAS 39 Financial Instruments: Recognition and Measurement. As a result of FRS 102 the non-statutory financial statements were also prepared in accordance with Financial Reporting Standard 103 applicable to entities in the UK and Republic of Ireland with general insurance business or long-term insurance business ("FRS 103") as issued in March 2014. The non-statutory financial statements have been prepared under the historical cost accounting rules, except for financial assets held as available-for-sale which are measured at fair value. The non-statutory financial statements are presented in Pound Sterling which is the Company's functional currency.

The Company's parent undertaking Munich Re includes the Company in its consolidated financial statements. The consolidated financial statements of Munich Re are prepared in accordance with International Financial Reporting Standards and are available to the public and can be obtained from the Company's registered office at the address provided in the report of the Directors on page 4. In these non-statutory financial statements, the company is considered to be a qualifying entity (for the purposes of this FRS) and has applied the exemptions available under FRS 102 in respect of the following disclosures:

- Reconciliation of the number of shares outstanding from the beginning to end of the period;
- Cash Flow Statement and related notes; and

As the consolidated financial statements of Munich Re include the equivalent disclosures, the Company has also taken the exemptions under FRS 102 available in respect of the following disclosures:

- The requirement of Section 33 Related Party Disclosures paragraph 33.7

An overview of the Company's key sources of business, key performance indicators and high level strategy are set out in the non-statutory Directors' Report. The Company has significant financial resources together with prudent investment policies, high quality of assets, robust underwriting procedures controls and mitigating processes including, but not limited to, reinsurance. Consequently, the Directors believe that the Company is well placed to manage its business risks. The Directors are confident that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

2. Accounting Policies

The following accounting policies have been applied consistently within the accounts and from one financial year to another, in dealing with items which are considered material in relation to the non-statutory financial statements.

Use of judgements and estimates in recognition and measurement

In preparing the non-statutory financial statements, the Company has to use judgement in applying accounting policies and to make estimates and assumptions that affect the year-end items shown in the balance sheet and the statement for profit or loss.

Particularly in insurance and reinsurance, the use of estimates for measuring technical provisions is of substantial significance, given that measurement is invariably based on models and the development of future cash flows from insurance contracts cannot be conclusively predicted but judgement and estimates play a significant role in the case of other items as well.

The Company's internal processes are geared to determining amounts as accurately as possible, taking into account all the relevant information. The basis for determining amounts is management's best knowledge regarding the items concerned at the reporting date.

Nevertheless, it is in the nature of these items that estimates may have to be adjusted in the course of time to take into account new knowledge. Discretionary judgement and estimates are of significance for the following items in particular:

- Fair values and impairments of financial instruments
- Deferred acquisition costs
- Technical provisions
- Deferred tax
- Contingent liabilities

Premiums

Written premiums comprise the amount receivable including an estimate of pipeline premiums during the financial year for the whole period the Company is on risk in respect of contracts of insurance entered into and incepting during that period, together with any further adjustments to premiums receivable for prior accounting periods that had not been fully recognised in previous financial statements. Pipeline premiums are those collected by intermediaries but not yet received, and are assessed based on estimates from underwriting or past experience. Premiums are stated before deduction of commissions but net of taxes and duties levied on premiums.

Premiums are earned over the term of the insurance policies to which they relate, in accordance with the risk coverage provided by the underlying insurance policies.

Outward reinsurance and retrocession premiums are accounted for in the same accounting period as the premiums for the underlying direct insurance or inwards reinsurance business.

Unearned premiums

Premiums that relate to the unexpired terms of insurance policies in force at the balance sheet date are deferred as unearned premiums. These unearned premiums are taken to the Profit and Loss account so that premiums are recognised over the period of risk coverage provided by the underlying insurance policies.

Acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance and reinsurance contracts. The proportion of acquisition costs incurred in respect of unearned premiums is deferred at the balance sheet date and recognised in later periods when the related premium is earned.

Claims incurred

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

Claims outstanding

Provision is made at the year end for the estimated cost of claims incurred but not settled at the balance sheet date, including the cost of claims incurred but not yet reported ("IBNR") to the Company. The estimate of claims includes expenses to be incurred in settling claims and a deduction for the expected value of salvage and other recoveries.

The Company takes all reasonable steps to ensure that it has all appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, the final outcome may be different from the original liability established.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Company, where more information about the claim event is generally available. IBNR claims may often not emerge until many years after the underlying event has happened. Classes of business where the IBNR proportion of the total reserve is high, such as liability business, will typically display greater variations between initial estimates and final outcomes because of the greater degree of uncertainty involved.

Classes of business where claims are typically reported relatively quickly after the claim event, such as property business, tend to display lower levels of reserve volatility. In calculating the estimated cost of unpaid claims, management uses a variety of estimation techniques, generally based upon statistical analysis of historical experience, which assumes that the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to vary when compared with the cost of previously settled claims. This includes:

- changes in processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;

- changes in the mix of business (including the effect of currency fluctuations);
- the impact of large losses; and
- movements in industry benchmarks.

Specific information on individual claims are also taken into account, based for example on reports of loss adjusters. Furthermore, large claims are generally assessed separately, being measured on a case by case basis or projected separately in order to prevent distortions of the general claims development pattern.

Actuarial techniques are used to estimate the required level of provisions. This generates a deeper understanding of the trends inherent in the data and also assists in providing a range of possible outcomes. The most appropriate estimation technique is selected, taking into account the characteristics of the class of business and the extent of the development of each underwriting year.

Provisions are calculated gross of any reinsurance recoveries. A separate estimate is made of the reinsurers' share of provisions for claims based on calculated amounts for outstanding claims and projections for IBNR, net of estimated uncollectible amounts. Again, a range of statistical techniques are used in making these estimates.

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

Unexpired risk provisions

Provision is made for claims emanating from unexpired risks in respect of the contracts concluded before the end of the financial year which continue in force after that date and where claims are expected to exceed the unearned premiums under these policies. In calculating such a provision all business segments are considered individually and are stated after taking into account future investment income.

Other technical income

Other technical income comprises overriding commissions receivable and is reflected in the technical account on the same basis as the underlying business to which it relates.

Financial assets and liabilities

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

The accounting classification of financial assets and liabilities determines the way in which they are measured. Fixed-interest securities are classified as available-for-sale.

All financial assets are initially recognised at fair value. Subsequent to initial recognition, available-for-sale financial debt securities are measured at fair value with unrealised gains and losses being recognised in other comprehensive income and accumulated in a separate equity reserve.

If an available-for-sale investment is sold or impaired, the cumulative gain or loss accumulated in the fair value reserve is reclassified to profit or loss.

Listed investments are stated at bid - value at the close of business on the balance sheet date or the last Stock Exchange dealing day before the balance sheet date.

Loans and receivables are financial assets with fixed or determinable payments and are not quoted on an active market. They are initially recognised at fair value and subsequently measured at amortised cost, using the effective interest method.

The carrying value of all financial assets is reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

Investment return

Investment income comprises interest, dividends, and realised and unrealised investment gains and losses.

Realised gains and losses represent the difference between net sales proceeds and purchase price or market value at the previous year end. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their purchase price, adjusted for previously recognised unrealised gains and losses on investments disposed of in the accounting period.

All investment income and gains and losses, are initially accounted for in the non-technical account. An allocation is then made from the non-technical account to the general business technical account to reflect the return of those assets supporting underwriting activities.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit or loss account except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised directly in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the non-statutory financial statements. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax balances are not discounted.

Deferred tax assets are recognised only to the extent that is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Leases and hire purchase contracts

Payments made under operating leases are charged to the profit and loss account in the period in which they become payable.

Foreign currencies

Foreign currency transactions are translated at the rates of exchange ruling at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities transacted in foreign currencies are translated into sterling using the rate of exchange ruling at the date of the transaction.

The results and balance sheets of overseas controlled entities ("branches") that have a functional currency different from sterling (the presentation currency) are translated into sterling (the presentation currency) as follows:

- assets and liabilities are translated into sterling at the rate ruling at the balance sheet date;
- income and expenses are translated at cumulative average rates of exchange; and
- all resulting exchange differences are recognised in the Other comprehensive income.

All other foreign exchange differences are taken to the non-technical account.

3. Risk Management

Significant risks

Our general definition of risk is possible future developments or events that could result in a deviation from the Company's prognoses or targets. According to our classification, significant risks are risks that could have a long-term adverse effect on the Company's assets, financial situation or profitability. There are significant risks in the following risk categories:

Insurance risk

Insurance risk is defined as the risk of insured losses being higher than our expectations. The following states significant components of the insurance risk.

- Reserve risk: The risk of significant economic loss as a result of inappropriate or inadequate reserving
- Premium risk: The risk of decreasing technical rates and implied increased likelihood of future underwriting losses
- Catastrophe risk: Potential loss or increased claims experienced as a result of a single catastrophe or series of catastrophes
- Claims management risk: The risk of potential loss as a result of actual claims payments differing from the expected amount of claims payments
- Underwriting risk: The risk of potential loss due to inadequate underwriting activity

For insurance risk, key components of our risk management framework are the monitoring of risk developments and the constant review of actuarial assumptions used for the calculation of technical provisions. Premiums and reserves are calculated on the basis of carefully selected assumptions.

As a first stage of risk assessment, pricing and underwriting guidelines are in place for each class of business or segment, which are aligned with the general guidelines applicable to all (re)insurance entities within the Munich Re Group.

Moreover, the Company's Actuarial department in conjunction with the Munich Re Central Reserving department ensure that sufficient reserves are held to cover the liabilities incurred through regular monitoring of actual versus expected claims and the annual reserve review process. The full analysis and calculation of the reserves of the company is performed once a year during the year-end closing. The calculation of the reserves is performed with methods and models, which are generally accepted by actuarial science and especially follow Munich Re Group guidance. For local UK GAAP purposes, the booked provisions for the retained part of the business are set on a prudent best estimate level.

These measures and processes ensure that the business written by the Company is managed and reserved in a risk adequate manner. The appropriateness of the guidelines is checked continuously with independent control processes and amendments are made if necessary. Each key function holder (Audit, Compliance, Risk Management and Actuarial) is responsible for compliance with the guidance.

The business that the Company retains is protected by an effective Group-internal non-proportional reinsurance programme. A thorough analysis is undertaken on a yearly basis to optimise the structure of the reinsurance programme and secure a risk adequate retention level.

Note 4 sets out the concentration of insurance risk by contract type and gives a geographical split of premiums.

The table below demonstrates a 1% - change in the financial year loss ratio and the subsequent impact on total claims outstanding (gross and net:

	2016 £'000	2015 £'000
GROSS		
Claims outstanding year-end	3,605,686	3,180,529
1% - change in financial year loss ratio	19,986	18,093
NET		
Claims outstanding year-end	355,349	319,619
1% - change in financial year loss ratio	1,426	1,189

Market risk

Market risk refers to the risks arising from adverse movements in the financial markets. These include potential losses in equity markets, changes in interest rates or credit spreads and adverse foreign exchange movements.

It is the Company's strategy to take on very limited Market Risk and this is reflected in the investment benchmark pursued. This strategy stems from a desire for optimising asset diversification rather than maximizing the investment income potential. Given the Company's low market risk appetite, the investment portfolio consists of fixed income and money market securities (government bonds, corporate bonds and cash) and is exposed mainly to foreign exchange and interest rate risk. This Market risk is mitigated to the extent that the Company's liability cash flows can be estimated and matched by asset cash flows. The matching allows for liabilities to be met regardless of the state of market drivers such as interest or exchange rates, and therefore it is the mismatch in the characteristics of assets and liabilities that drives market risk. This concept underlies both the Company's asset-liability management (ALM) and Market Risk measurement and involves:

- the development of an economic Replicating Portfolio (RP) representing the characteristics of the best estimate liabilities in terms of currency, interest rate and inflation sensitivity.
- development of the Economic Neutral Position (ENP) which adds to the RP a preference for the risk structure of the surplus in terms of duration, currency, interest rate and inflation sensitivity, while also reflecting fungibility constraints.
- development of a Target Risk Return Profile (Benchmark Portfolio BMP) which takes into account the risk preference of the Board for strategic asset-liability mismatch risk (Market Risk relative to the ENP and Credit Risk) as well as statutory and other restrictions.

The table below shows the Company's sensitivity to changes in interest rate on investment assets:

Shift in yield (basis points) as at 31 December 2016

	AUD $ £'000	CAD $ £'000	CHF £'000	EUR € £'000	USD $ £'000	GBP £ £'000	Total £'000
50 basis point increase	355	221	679	3,346	1,884	2,235	8,720
50 basis point decrease	(362)	(224)	(695)	(3,456)	(1,977)	(2,300)	(9,015)

Shift in yield (basis points) as at 31 December 2015

	AUD $ £'000	CAD $ £'000	CHF £'000	EUR € £'000	USD $ £'000	GBP £ £'000	Total £'000
50 basis point increase	299	203	666	1,105	1,400	2,858	6,531
50 basis point decrease	(306)	(206)	(683)	(1,148)	(1,459)	(2,919)	(6,721)

The table below sets out the largest currency exposures of the Company:

Currency split as at 31 December 2016

	AUD $ £'000	CAD $ £'000	EUR € £'000	USD $ £'000	GBP £ £'000	Other £'000	Total £'000
Assets							
Investments	31,446	3,777	305,881	174,707	137,673	-	653,484
Reinsurer's share of technical provisions	329,888	36,540	445,178	937,247	2,407,289	14,702	4,170,844
Insurance and other receivables	91,576	347	77,091	75,573	625,762	3,724	874,073
Cash and cash equivalents	20,985	287	14,135	29,066	19,995	1,284	85,752
Prepayments and accrued income	55,469	15	16,753	41,790	162,003	4,867	280,897
Total Assets	**529,364**	**40,966**	**859,038**	**1,258,383**	**3,352,722**	**24,577**	**6,065,050**
Liabilities							
Technical Provisions	(396,440)	(36,540)	(516,399)	(1,120,837)	(2,539,573)	(14,690)	(4,624,479)
Provisions for other risks and changes	-	-	-	-	(1,200)	-	(1,200)
Reinsurance and other payables	(53,519)	271	(68,392)	(44,428)	(650,273)	(5,247)	(821,588)
Accruals and deferred income	(37,029)	(17)	(17,556)	(41,251)	(163,356)	(4,807)	(264,016)
Total Liabilities	**(486,988)**	**(36,286)**	**(602,347)**	**(1,206,516)**	**(3,354,402)**	**(24,744)**	**(5,711,283)**
Net Assets	**42,376**	**4,680**	**256,691**	**51,867**	**(1,680)**	**(167)**	**353,767**

Currency split as at 31 December 2015

	AUD $ £'000	CAD $ £'000	EUR € £'000	USD $ £'000	GBP £ £'000	Other £'000	Total £'000
Assets							
Investments	18,686	2,492	43,606	153,506	350,127	-	568,417
Reinsurer's share of technical provisions	251,624	41,798	322,815	823,516	2,235,351	22,549	3,697,653
Insurance and other receivables	77,037	(5,529)	28,053	198,109	577,725	14,334	889,729
Cash and cash equivalents	17,175	1,768	21,709	22,255	68,665	2,355	133,927
Prepayments and accrued income	46,611	340	17,970	43,486	116,274	3,848	228,528
Total Assets	**411,133**	**40,869**	**434,153**	**1,240,872**	**3,348,142**	**43,086**	**5,518,255**
Liabilities							
Technical Provisions	(304,240)	(41,798)	(393,315)	(987,700)	(2,355,688)	(24,374)	(4,107,115)
Provisions for other risks and changes	-	-	-	-	(1,200)	-	(1,200)
Reinsurance and other payables	(39,802)	(318)	(24,366)	(175,418)	(613,058)	(16,509)	(869,471)
Accruals and deferred income	(31,443)	(341)	(18,679)	(43,494)	(113,183)	(3,890)	(211,030)
Total Liabilities	**(375,485)**	**(42,457)**	**(436,360)**	**(1,206,612)**	**(3,083,129)**	**(44,773)**	**(5,188,816)**
Net Assets	**35,648**	**(1,588)**	**(2,207)**	**34,260**	**265,013**	**(1,687)**	**329,439**

The following table shows the currency sensitivity on the Company's net assets (before tax):

2016	AUD $ £'000	CAD $ £'000	EUR € £'000	USD $ £'000	GBP £ £'000	Other £'000	Total £'000
1% increase in original currency	424	47	2,567	519	-	(2)	3,555
5% increase in original currency	2,119	234	12,835	2,593	-	(8)	17,773
10% increase in original currency	4,238	468	25,669	5,187	-	(17)	35,545
1% decrease in original currency	(424)	(47)	(2,567)	(519)	-	2	(3,555)
5% decrease in original currency	(2,119)	(234)	(12,835)	(2,593)	-	8	(17,773)
10% decrease in original currency	(4,238)	(468)	(25,669)	(5,187)	-	17	(35,545)

2015	AUD $ £'000	CAD $ £'000	EUR € £'000	USD $ £'000	GBP £ £'000	Other £'000	Total £'000
1% increase in original currency	356	(16)	(22)	343	-	(17)	644
5% increase in original currency	1,782	(79)	(110)	1,713	-	(84)	3,222
10% increase in original currency	3,565	(159)	(221)	3,426	-	(169)	6,442
1% decrease in original currency	(356)	16	22	(343)	-	17	(644)
5% decrease in original currency	(1,782)	79	110	(1,713)	-	84	(3,222)
10% decrease in original currency	(3,565)	159	221	(3,426)	-	169	(6,442)

Credit risk

Reinsurance credit risk

The assumption of reinsurance credit risk, being the deterioration of a counterparty's credit worthiness, is an essential part of the Company's business model. The vast majority of reinsurance placed is within the Munich Re Group and the recoveries are paid when due. There are no past due or impaired balances. For the resulting credit risk exposure, a maximum limit has been set and a risk mitigation scheme based on a system of triggers has been put in place.

The Company's remaining insurance receivables, emanating mainly from agency receivables, are mostly non-rated.

The following table provides information on the carrying value of receivables arising out of direct insurance business and its valuation adjustment.

RECEIVABLES ARISING OUT OF DIRECT INSURANCE BUSINESS	2016 £'000	2015 £'000
Unadjusted receivables arising out of direct insurance business	839,475	835,533
Valuation adjustment	(490)	(1,258)
TOTAL	838,985	834,275

The Company has allowed for a valuation adjustment on a bulk basis for the receivables due over 90 days. The Company believes for the remaining receivables due over 90 days an adjustment is not appropriate as the amounts due will be collected through normal credit procedures. Furthermore any shortfall on overdue and uncollected amounts is covered through the reinsurance contract for the facilitated book of business.

2016	Less than 90 days £'000	90 - 120 days £'000	120 - 180 days £'000	More than 180 days £'000	Total £'000
Receivables arising out of direct insurance business	794,096	36,683	8,696	-	839,475
Valuation adjustment	-	(490)	-	-	(490)
TOTAL	**794,096**	**36,193**	**8,696**	**-**	**838,985**

2015	Less than 90 days £'000	90 - 120 days £'000	120 - 180 days £'000	More than 180 days £'000	Total £'000
Receivables arising out of direct insurance business	824,664	10,869	-	-	835,533
Valuation adjustment	-	(1,258)	-	-	(1,258)
TOTAL	**824,664**	**9,611**	**-**	**-**	**834,275**

Investment counterparty credit risk

Credit risk can occur through the deterioration of the credit worthiness of a counterparty or financial instrument. For investment credit risk, counterparty limits have been defined and are being monitored on a regular basis and reported internally. Additionally, there is associated risk management activity through the liability-driven investment process.

The following table provides information on the credit risk exposure of the Company's financial assets:

Rating of financial assets as at 31 December 2016

	AAA £'000	AA £'000	A £'000	BBB £'000	non-rated £'000	Total £'000
Government fixed interest securities	291,756	198,182	-	37,178	-	527,116
Corporate bonds	-	25,895	48,102	37,032	-	111,029
Covered bonds	-	12,290	-	3,009	-	15,299
Other securities	-	-	-	-	40	40
Deposit assets	-	-	-	-	23,252	23,252
Debtors arising out of direct insurance operations	-	9,540	-	-	829,445	838,985
Other debtors	-	-	-	-	5,685	5,685
Cash at bank	31,511	35,019	18,704	518	-	85,752
Total	**323,267**	**280,926**	**66,806**	**77,737**	**858,422**	**1,607,158**

Rating of financial assets as at 31 December 2015

	AAA £'000	AA £'000	A £'000	BBB £'000	non-rated £'000	Total £'000
Government fixed interest securities	189,470	224,470	3,100	20,233	-	437,273
Corporate bonds	-	10,667	33,285	28,288	-	72,240
Covered bonds	17,293	-	-	-	-	17,293
Other securities	-	-	-	-	34	34
Deposit assets	-	-	-	-	41,577	41,577
Debtors arising out of direct insurance operations	-	6,300	-	-	827,975	834,275
Other debtors	-	-	-	-	47,450	47,450
Cash at bank	90,706	29,596	13,307	318	-	133,927
Total	**297,469**	**271,033**	**49,692**	**48,839**	**917,036**	**1,584,069**

Liquidity risk

Liquidity risk is the risk of potential loss as a result of insufficient liquidity to pay liabilities as they become due.

A substantial part of the Company's shareholders' funds is invested in highly liquid assets, which is available to cover temporary liquidity. Investments are arranged in such a way that they coincide with the expected pay-out pattern of the Company's liabilities. In the context of liquidity planning, the liquidity required is forecasted and monitored on a regular basis. A short-term safety margin is included in case actual cash flows deviate from planned cash flows. The Company can call on funds from the Munich Re Group cash pool on short notice should there be any unexpected cash requirements.

As at 31 December 2016 the average duration of our investments is approximately 2 years, the average duration of the Company's net technical reserves for the retained CIP business is approximately 3 years. The contractual period to maturity of the Company's financial investments is set out in note 11.

The table below states the expected payment pattern from the provisions for gross outstanding claims of 3,605,686 (2015: £3,180,529) and net outstanding claims of £355,349 (2015: £319,619):

	2016 Gross %	2016 Net %	2015 Gross %	2015 Net %
up to one year	43%	48%	44%	48%
over one and up to two years	22%	13%	21%	16%
over two and up to five years	25%	19%	25%	19%
over five years	10%	20%	10%	17%
Total	**100%**	**100%**	**100%**	**100%**

Operational risk

Operational risk is the risk of losses stemming from inadequate or failed internal processes, people and systems or from external events.

The Company manages operational risk through a specific Internal Control System (ICS). Using this approach, material risks and the related key controls across all processes are identified, analysed and assessed via the Risk and Control Assessment (RCA) process where improvements and control procedures are also defined. The ICS approach systematically links risks and processes to create a 'risk map' highlighting all relevant risk control points for the Company. This approach is standardised across the Munich Re Group and reported regularly to the Risk and Capital Committee.

Strategic risk

Strategic risk occurs through a negative impact to the Company, financial or otherwise, due to the inability to implement appropriate business plans and strategies, make decisions, allocate resources or adapt to changes in the business environment The strategy of the Company is regularly monitored and reported to the senior management through the use of the Balanced Scorecard framework. In terms of key strategic projects, these are well managed by dedicated project teams who provide regular progress updates to senior management.

Conduct risk (sub-category of Strategic Risk)

Conduct risk is the risk of detriment caused to the Company, its policyholders, clients or counterparties as a result of the inappropriate execution of the business activities.

The Audit Committee receives quarterly management information comprised of quantitative data received from the agents as well as internal qualitative assessments. In case of the overall assessment being negative, the Audit Committee would receive a follow up on the risk mitigation proposal by the Senior Insurance Manager. Furthermore, internal risk focused committees receive quarterly status updates.

As the Conduct Risk Framework takes further shape within the Company, additional risk measures and monitoring processes will be developed over time.

Capital Management

The Company's overall capital management strategy is to optimise the usage of capital in line with its business strategy, economic risk profile, appetite and steering philosophy, subject to fulfilling capital requirements of all applicable regulatory authorities and rating agencies. At an operational level, day-to-day capital management decisions are driven by risk and capital activities (e.g. changes in risk profile, regulatory changes, internal model changes), finance activities (e.g. cash flow, accounting results or cost, investment transactions) and by strategic directives (e.g. new business opportunities). Capital management decisions must strike a balance between efficient use of capital and the protection of policyholders, shareholders and other stakeholders.

Through active capital management, it is ensured that the Company's capitalisation is maintained at an appropriate level. The Company's available financial resources (Eligible Own Funds in Solvency II terminology) must always be sufficient to cover the capital requirements determined by the ruling requirements of supervisory authorities, rating agencies and the risk appetite and buffer set by the Company's Board. Moreover, the intention is to ensure that the Company's financial strength is such that it enables us to take advantage of opportunities for profitable growth.

The Company's approach to measuring capital for assessing potential capital management decisions is defined by the Whole Portfolio Risk Criteria which exists to safeguard the Company's financial strength, solvency, and target rating to provide a risk based view for pursuing capital management decisions. The Criteria is split into the following two quantitative risk categories, each with their own KRI:

- Financial Strength - designed to reflect the Company's regulatory solvency position, and therefore the level of financial confidence that policyholders expect in order to place business with the Company. It is measured by the Company's ability to meet its approved Internal Model Solvency Capital Requirement (SCR), under Solvency II.

- Avoiding Capital Injections - relates to a quantitative measure in a manner such that capital injections into the Company should not be required, other than in cases of material changes to business strategy, economic risk profile and steering philosophy. The need for capital injections, or conversely the potential for dividend are measured by the difference between the Company's Available Capital (measured from an economic basis i.e. Eligible Own Funds) and the Company's highest capital requirements (Internal Model SCR, Minimum Capital Requirement, S&P Rating and other requirements).

4. Segmental Information

(a) Analysis of gross premiums, profit before tax and net assets

	Gross premiums written 2016 £'000	Profit (Loss) before tax 2016 £'000	Net assets 2016 £'000	Gross premiums written 2015 £'000	Profit (Loss) before tax 2015 £'000	Net assets 2015 £'000
BY GEOGRAPHICAL SEGMENT						
United Kingdom	1,576,169	7,818	322,956	1,434,481	(17,387)	282,003
Switzerland	7,140	4,217	9,943	4,292	551	5,091
Italy	29,668	(624)	7	18,926	300	461
Australia	297,244	1,159	16,652	245,356	2,835	38,917
New Zealand	20,255	112	338	17,534	(116)	464
Ireland	85,340	1,202	3,871	74,693	1,004	2,503
	2,015,816	**13,884**	**353,767**	**1,795,282**	**(12,813)**	**329,439**

The directors consider the Company to be involved in only one type of business, that is general insurance business.

(b) Analysis of gross written premiums

	2016 £'000	2016 £'000
Resulting from contracts concluded by the Company:		
In the EU member state of its head office	1,691,177	1,528,100
Outside EU member states	324,639	267,182
	2,015,816	**1,795,282**

(c) Analysis of gross premiums written, gross premiums earned, gross claims incurred, gross operating expense and the reinsurance balance

2016	Direct marine & aviation £'000	Direct property £'000	Direct general liability & other £'000	Direct motor £'000	Total direct £'000	Re-insurance accepted £'000	Total £'000
Gross premiums written	163,652	292,440	729,065	830,659	2,015,816	-	2,015,816
Gross premiums earned	195,632	314,466	727,276	761,268	1,998,642	-	1,998,642
Gross claims incurred	121,267	218,411	438,622	503,608	1,281,908	-	1,281,908
Unexpired Risk Reserve	-	-	(234)	-	(234)	-	(234)
Gross operating expenses	31,506	72,537	335,604	234,504	674,151	-	674,151
Gross technical result	42,859	23,518	(46,716)	23,156	42,817	-	42,817
Reinsurance balance	41,714	5,033	(31,804)	21,135	36,078	-	36,078
Net technical result	**1,145**	**18,485**	**(14,912)**	**2,021**	**6,739**	**-**	**6,739**
Net technical provisions	**478**	**35,235**	**416,129**	**1,790**	**453,632**	**3**	**453,635**

2015	Direct marine & aviation £'000	Direct property £'000	Direct general liability & other £'000	Direct motor £'000	Total direct £'000	Re-insurance accepted £'000	Total £'000
Gross premiums written	225,384	352,795	540,494	676,609	1,795,282	-	1,795,282
Gross premiums earned	212,320	350,212	575,835	670,981	1,809,348	-	1,809,348
Gross claims incurred	175,095	208,520	365,668	443,894	1,193,177	-	1,193,177
Unexpired Risk Reserve	-	-	3,455	-	3,455	-	3,455
Gross operating expenses	29,414	105,454	236,430	168,056	539,354	-	539,354
Gross technical result	7,811	36,238	(29,718)	59,031	73,362	-	73,362
Reinsurance balance	20,997	46,284	(26,908)	61,535	101,908	-	101,908
Net technical result	**(13,186)**	**(10,046)**	**(2,810)**	**(2,504)**	**(28,546)**	**-**	**(28,546)**
Net technical provisions	**16,818**	**109,671**	**282,970**	**-**	**409,459**	**3**	**409,462**

5. Investment Income

	2016 £'000	2015 £'000
Investment Income	6,368	7,294
Realised gains	5,343	5,341
	11,711	**12,635**

6. Investment Expenses and Charges

	2016 £'000	2015 £'000
Investment management expenses, including interest	907	769
Realised losses	5,577	1,245
	6,484	**2,014**

7. Other Technical Income

	2016 £'000	2015 £'000
Overrider commission (net of deferral)	27,600	27,313
Other income	1	22
	27,601	**27,335**

8. Net Operating Expenses

	2016 £'000	2015 £'000
Acquisition costs	665,852	490,733
Change in gross operating expense provision	-	120
Change in gross deferred acquisition costs (note 18)	(35,151)	14,359
	630,701	505,212
Administrative expenses	43,450	34,142
Gross operating expenses	674,151	539,354
Reinsurance commissions and profit participation	(626,711)	(453,840)
Change in ceded operating expense provision	-	(120)
Change in deferred reinsurance commission (note 18)	36,504	(18,861)
Net operating expenses	**83,944**	**66,533**

9. Remuneration of Directors

	2016 £'000	2015 £'000
Directors' emoluments	462	411
Pension contributions	11	11
	473	**422**

The directors' remuneration consists of the emoluments paid to the directors by the Company and Munich Re UK Services Limited. The emoluments of the highest paid director for the year were £306,781 (2015: £207,995) and pension contributions of £Nil (2015: £Nil). There was one director for whom retirement benefits are accruing in respect of qualifying services under a money purchase plan. For the purposes of this report all key management personnel consist of directors.

The Company has no employees and does not pay any remuneration other than fees to its directors. Any pension contributions to the multi-employer pension scheme are disclosed in the accounts of the service company, Munich Re UK Services Limited.

10. Taxation

	2016 £'000	2015 £'000
UK Corporation tax charge at 20% (2015: 20.25%)	(5,049)	4,239
Change in prior year current tax	(409)	(445)
Total Current Tax Charge	**(5,458)**	**3,794**
Change in current year net deferred tax	(797)	(1)
Total Deferred Tax	**(797)**	**(1)**
Total Tax	**(6,255)**	**3,793**

	Current Tax 2016 £'000	Deferred Tax 2016 £'000	Total Tax 2016 £'000	Current Tax 2015 £'000	Deferred Tax 2015 £'000	Total Tax 2015 £'000
Recognised in Profit and loss account	(5,714)	(1)	(5,715)	1,965	(1)	1,964
Recognised in other comprehensive income	256	(796)	(540)	1,829	-	1,829
Total Tax	**(5,458)**	**(797)**	**(6,255)**	**3,794**	**(1)**	**3,793**

	2016 £'000	2015 £'000
Profit (Loss) before tax	**13,884**	**(12,813)**
UK Corporation tax (charge) credit at 20% (2015: 21.25%)	(2,777)	2,595
Excess capital allowances over depreciation	1	1
Utilisation of losses carried back to prior periods	-	-
Tax effect of franked investment income	-	-
Tax rate differential on foreign taxes paid	(119)	(159)
Timing differences on foreign taxes paid	-	-
Tax effect of other permanent differences	(1)	(28)
Exit tax payable to UK authorities	(2,410)	-
Under provision relating to prior periods	(409)	(445)
Total Tax expense included in profit or loss	**(5,715)**	**1,964**

10. Taxation (continued)

	2016 £'000	2015 £'000
Other comprehensive income (Loss) before tax	**3,600**	**(9,030)**
UK Corporation tax (charge) credit at 20% (2015: 20.25%)	-	1,829
Current tax credit for transitional rules in 2016 on cumulative gains up to 31st December 2015	256	-
Deferred tax charge on future realisation of cumulative gains on AFS investments	(1,139)	-
Deferred tax credit for transitional rules in 2016 on cumulative gains up to 31st December 2015	362	-
Tax rate differential arising from foreign jurisdictions	(19)	-
Total Tax expense included in other comprehensive income	**(540)**	**1,829**

Deferred Taxes

Under FRS 19 deferred tax is provided in full on certain timing differences

	2016 £'000	2015 £'000
Deferred Tax Asset		
Balance at start of year	4	5
Change in deferred tax	361	(1)
Impact of change in UK Tax rate	-	-
	365	**4**
Deferred Tax Liability		
Balance at start of year	-	-
Change in deferred tax	1,158	-
Impact of change in UK Tax rate	-	-
	1,158	**-**

The Finance Act 2015, which provides for reduction in the UK Corporation tax rate down to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. These rate reductions to 19% and 18% will reduce the Company's future current tax charge and have been reflected in the calculation of the deferred tax balance at 31 December 2016.

On 1 January 2016 the taxation on unrealised gains and losses arising from available-for-sale assets ("AFS Assets") changed. Up until 31 December 2015 unrealised gains and losses arising from available-for-sale assets ("AFS Assets") were fully taxable. After 1 January 2016 only realised gains and losses are taxable. Accordingly the Company has provided for the tax liability that will arise in the future once the unrealised gains and losses held in Other Comprehensive Income ("OCI") become realised. The total of this tax liability is £1,139,142. To avoid double taxation on unrealised gains and losses exisiting at 31 December 2015, transitional provisions have been put in place. The application of these provisions has reduced current tax through OCI by £256,159 and resulted in a deferred tax asset of £362,224.

On 1 January 2016, the Company made an election to treat its overseas branches as being outside the charge to UK tax. The effect of this was the recognition of a deferred tax liability of £18,848 in respect of unrealised gains and losses on AFS assets held by foreign branches.

The remaining deferred tax asset of £3,542 has arisen on differences between depreciation and capital allowances.

11. Financial Investments

	Current Value 2016 £'000	2015 £'000	Cost Value 2016 £'000	2015 £'000
Financial Investments				
Government fixed interest securities	527,116	437,273	522,695	434,718
Corporate bonds	111,029	72,240	109,200	71,976
Covered bonds	15,299	17,293	15,077	17,239
Deposits with credit institutions	40	34	40	34
	653,484	**526,840**	**647,012**	**523,967**

Government fixed interest securities included gilts, treasury notes and other government backed securities. The Company has fully funded a US$133.8m United States Trust Fund obligation; a US$48.4m Swiss tied assets obligation; US$23.9m and CAD$6.3m Canadian Trust Fund obligations. These comprise investments in government fixed interest securities.

Fair value hierarchy of financial investments

The fair value hierarchy provides for three levels and the allocation reflects which of the fair values derive from transactions in the market and where valuation is based on models because market transactions are lacking.

Level 1 - Valuation is based on unadjusted quoted prices in active markets for identical financial assets which the company can refer to at the balance sheet date. A market is deemed active if transactions take place with sufficient frequency and in sufficient quantity for price information to be available on an ongoing basis. Since a quoted price in an active market is the most reliable indicator of fair value, this should always be used if available.

Level 2 - Valued using models based on observable market data. For this, we use inputs directly or indirectly observable in the market, other than quoted prices. If the financial instrument concerned has a fixed contract period, the inputs used for valuation must be observable for the whole of this period. Moreover, we have allocated to this level such investments for which prices are provided by price quoters but for which there is no proof that these were based on actual market transactions.

Level 3 - We use valuation techniques not based on inputs observable in the market. This is only permissible insofar as no observable market data is available. The inputs used reflect company's assumptions regarding the factors which market players would consider in their pricing. We use the best available information for this, including internal company data.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial investments as at 31 December 2016	-	653,484	-	653,484

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial investments as at 31 December 2015	-	526,840	-	526,840

11. Financial Investments (continued)

Exposure by country of financial investments

	2016 £'000	2015 £'000
United Kingdom	58,231	208,874
United States	138,489	136,207
Germany	144,755	30,636
Australia	31,446	18,686
Canada	23,085	25,923
France	114,876	19,749
Belgium	41,826	8,183
Other	100,776	78,582
	653,484	**526,840**

Contractual period to maturity of financial investments

	2016 £'000	2015 £'000
up to one year	245,161	166,096
over one and up to five years	288,309	287,045
over five and up to ten years	112,771	68,471
over ten and up to twenty years	4,283	5,228
over twenty years	2,960	-
	653,484	**526,840**

12. Debtors arising out of direct insurance operations

	2016 £'000	2015 £'000
Amounts owed by intermediaries	829,445	827,975
Amounts owed by group companies	9,540	6,300
	838,985	**834,275**

13. Other Debtors

	2016 £'000	2015 £'000
Deposit recoverable from parent company	794	16,661
Salvage and subrogation recoverable	-	30,837
Other debtors	4,891	42
	5,685	**47,540**

14. Cash at Bank

The cash at bank balance of £85.8m (2015: £133.9m) includes accounts totalling £12.0m (2015: £7.3m) which have been set aside to secure letters of credit and guarantees issued in the normal course of business, and in respect of other statutory requirements. As such these balances are restricted from general use.

15. Share Capital

	2016 £'000	2015 £'000
Allotted, called up and fully paid		
11,400,000 (2015 - 11,400,000) Ordinary Shares of £10 each	114,000	114,000

16. Technical Provisions

	Provision for unearned premiums 2016 £'000	Claims outstanding 2016 £'000	Unexpired risk reserve 2016 £'000	Total 2016 £'000
GROSS AMOUNT				
At beginning of the year	923,131	3,180,529	3,455	4,107,115
Currency translation differences	75,267	239,244	-	314,511
Movement in the provision	17,174	185,913	(234)	202,853
At end of the year	**1,015,572**	**3,605,686**	**3,221**	**4,624,479**
REINSURANCE AMOUNT				
At beginning of the year	(836,743)	(2,860,910)	-	(3,697,653)
Currency translation differences	(63,840)	(199,628)	-	(263,468)
Movement in the provision	(19,924)	(189,799)	-	(209,723)
At end of the year	**(920,507)**	**(3,250,337)**	**-**	**(4,170,844)**
NET TECHNICAL PROVISIONS				
At beginning of the year	**86,388**	**319,619**	**3,455**	**409,462**
At end of the year	**95,065**	**355,349**	**3,221**	**453,635**

16. Technical Provisions (continued)

	Provision for unearned premiums 2015 £'000	Claims outstanding 2015 £'000	Unexpired risk reserve 2015 £'000	Total 2015 £'000
GROSS AMOUNT				
At beginning of the year	935,572	2,759,225	-	3,694,797
Currency translation differences	1,625	12,609	-	14,234
Movement in the provision	(14,066)	408,695	3,455	398,084
At end of the year	**923,131**	**3,180,529**	**3,455**	**4,107,115**
REINSURANCE AMOUNT				
At beginning of the year	(841,708)	(2,482,498)	-	(3,324,206)
Currency translation differences	(1,987)	(9,247)	-	(11,234)
Movement in the provision	6,952	(369,165)	-	(362,213)
At end of the year	**(836,743)**	**(2,860,910)**	**-**	**(3,697,653)**
NET TECHNICAL PROVISIONS				
At beginning of the year	**93,864**	**276,727**	**-**	**370,591**
At end of the year	**86,388**	**319,619**	**3,455**	**409,462**

The analysis of technical provisions for net claims at the beginning of the year compared to payments and provisions at the end of the year in respect of prior underwriting years' liabilities amounted to an overprovision in 2016 in respect of direct general liability of £1.8m (2015: negative run-off of £15.7m) and direct property and other of £25.4m (2015: negative run-off of £3.0m).

17. Claims Development Tables

Claims payments for the individual underwriting years (per financial year, gross)

Underwriting Year	≤ 2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000
2016	64,288	71,448	102,468	250,202	449,423	158,166
2015	11,648	76,399	170,757	375,397	150,281	
2014	217,060	192,361	388,213	146,391		
2013	416,452	416,260	164,012			
2012	768,365	132,523				
2011	978,385					

Claims reserves for the individual underwriting years (per financial year, gross)

Underwriting Year	≤ 2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000
2016	1,035,937	316,585	424,318	535,937	725,422	567,486
2015	1,112,227	392,621	482,430	698,224	495,027	
2014	1,139,024	485,287	665,525	470,469		
2013	1,465,683	672,758	494,080			
2012	1,938,183	530,515				
2011	2,352,087					

Ultimate loss for the individual underwriting years (per financial year, gross)

Underwriting Year	≤ 2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000
2016	3,492,135	1,205,576	1,249,768	1,307,927	1,325,126	725,652
2015	3,504,137	1,210,164	1,205,412	1,220,012	645,308	
2014	3,519,286	1,226,431	1,217,750	616,860		
2013	3,628,885	1,221,541	658,092			
2012	3,684,933	663,038				
2011	3,330,471					

17. Claims Development Tables (continued)

Claims payments for the individual underwriting years (per financial year, net)

Underwriting Year	≤ 2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000
2016	10,336	29,053	(14,608)	20,564	14,026	24,300
2015	18,558	7,009	12,165	15,646	11,877	
2014	22,207	6,750	23,872	7,280		
2013	32,716	16,807	7,142			
2012	32,678	6,642				
2011	32,372					

Claims reserves for the individual underwriting years (per financial year, net)

Underwriting Year	≤ 2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000
2016	105,417	35,598	39,512	74,178	55,018	45,626
2015	122,284	50,901	40,382	64,049	42,003	
2014	126,441	54,508	60,174	36,684		
2013	166,020	65,078	45,930			
2012	225,459	48,561				
2011	260,020					

Ultimate loss for the individual underwriting years (per financial year, net)

Underwriting Year	≤ 2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000
2016	254,185	101,859	68,083	117,668	80,921	69,926
2015	260,716	88,109	83,561	86,975	53,880	
2014	246,315	84,707	91,188	43,964		
2013	263,687	88,527	53,072			
2012	290,410	55,203				
2011	292,293					

18. Deferred Acquisition Costs

	2016 £'000	2015 £'000
GROSS AMOUNT		
At beginning of the year	224,298	240,625
Currency translation differences	18,902	(1,968)
Movement in the provision	35,151	(14,359)
At end of the year	**278,351**	**224,298**
REINSURANCE AMOUNT		
At beginning of the year	(198,586)	(218,560)
Currency translation differences	(15,318)	1,113
Movement in the provision	(36,504)	18,861
At end of the year	**(250,408)**	**(198,586)**
NET DEFERRED ACQUISITION COSTS		
At beginning of the year	**25,712**	**22,065**
At end of the year	**27,943**	**25,712**

19. Provisions for other risks and charges

	Expense provision 2016 £'000	Expense provision 2015 £'000
At beginning of the year	1,200	1,080
Movement in the year	-	120
At end of the year	**1,200**	**1,200**

The provision for risks and other charges is for an expense provision in relation to the assumption of liabilities under a Part VII transfer that took place in 2008.

20. Creditors arising out of Direct Insurance Operations

	2016 £'000	2015 £'000
Amounts owed to intermediaries	94,178	95,830
Amounts owed to group companies	644,520	664,675
	738,698	**760,505**

Amounts due to intermediaries and group companies are payable within one year.

21. Other Creditors

	2016 £'000	2015 £'000
Insurance premium tax liability	24,994	10,087
Deposit payable to third party	794	16,661
Other payables	21,741	231
	47,529	**26,979**

22. Leases

	Land and Buildings	
	2016 £'000	2015 £'000
Annual commitments under non-cancellable operating leases are as follows:		
- Within one year	42	170
Operating lease payments made during the financial year	42	170

23. Group Companies

Parent Company
The Company is a wholly owned subsidiary of Munich Re which is the immediate and ultimate parent company, incorporated in Germany. The largest group in which the results of the Company are consolidated is that headed by Munich Re and no other group financial statements include the results of the Company.

Risk Solutions

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