TRANSFERCOM LIMITED

Company Registration No. 5773175

Report and Financial Statements

31 December 2016

TRANSFERCOM LIMITED

REPORT AND FINANCIAL STATEMENTS
For the year ended 31 DECEMBER 2016

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Mr A Wilson
Mr S Michael (Non-executive)
Mr V Mavani (Non-executive)
Mr B G Snover (US) (Non-executive) (appointed 20 January 2016)
Mr C Hare (appointed 1 April 2016)
Ms K Amos (appointed 2 December 2016)

SECRETARY

Ms C Martin

REGISTERED OFFICE

4th Floor
8 Fenchurch Place
London
EC3M 4AJ

BANKERS

Barclays Bank PLC
One Churchill Place
London
EC14 5HP

AUDITOR

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

SOLICITORS

Hogan Lovells International LLP
Atlantic House, Holborn Viaduct
London
EC1A 2FG

TRANSFERCOM LIMITED

DIRECTORS' REPORT

The directors present their report and audited Financial Statements for the year ended 31 December 2016. The directors have chosen, in accordance with section 414c(II) of the Companies Act 2006, to include certain additional matters in the Strategic Report that would otherwise be required to be disclosed in this Directors' Report.

RESULTS AND DIVIDENDS

The loss for the year attributable to shareholders amounted to $981,000 (2015 - $1,074,000 loss). The directors do not recommend payment of a dividend (2015: $nil).

DIRECTORS

The directors of the Company during the year ended 31 December 2016 were those listed on page 1.

FUNCTIONAL CURRENCY

Since the Company's inception in 2006, the Directors have adopted United States Dollars as the functional currency because the greatest proportion of the Company's assets and liabilities are denominated in that currency.

FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company adopts a conservative investment and risk management policy to ensure that there is no material exposure to market, liquidity or cash flow risks to funds held which support the Company's solvency requirement. In addition, the Company has no exposure to pricing, derivatives or currency-hedging risks.

AUDITORS

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

(1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 (2) of the Companies Act 2006.

The Company has elected to dispense with the obligation to appoint an auditor annually and, accordingly, Deloitte LLP shall be deemed to be re-appointed as auditor for a further term.

Approved by the Board of Directors
and signed on behalf of the Board

A Wilson
Director
Date : 19 May 2017

TRANSFERCOM LIMITED

STRATEGIC REPORT

PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The Company continues to handle the run off of its non-marine reinsurance account and the marine and non-marine business originally underwritten by various agencies.

Effective 3 March 2016, and with the approval of the UK Court and Prudential Regulation Authority, the Company received the transfer of a portfolio of insurance liabilities from Sompo Japan Nipponkoa Inc., under Part VII of the Financial Services and Markets Act 2000.

Effective 4 August, 2016 the company entered into a trust agreement with its parent, whereby a trust account was established into which was placed the balance of the funds withheld. The effect was to reduce the insurance payables, with a corresponding reduction in the financial investments.

The Company's operations are administered by the Company, with additional claims-handling and administrative services being provided by related group companies.

The Company intends to continue to manage the run-off of the insurance assets and liabilities in an orderly manner.

KEY PERFORMANCE INDICATORS

The Company's performance is measured and monitored by the Board with particular regard paid to the following Key Performance Indicators:

Capital Resources

The aim of the Company is to maintain an appropriate margin of regulatory capital over capital resource requirements. In 2015 and in accordance with the handbook issued by the Prudential Regulatory Authority, the Company's free assets were $52,694,000. In 2016 and in accordance with the new Solvency II regulatory framework the available and eligible own funds of the company were $45,804,000 to meet a Solvency Capital Requirement of $5,667,000.

Profits after Taxation and Shareholders Funds

For the year ended 31 December 2016, the Company reported a loss after taxation of $981,000 (2015: $1,074,000 loss). As at 31 December 2016, the Company had shareholders' funds amounting to $55,646,000 (2015: $56,627,000).

Cash Flows

Cash flows are monitored closely by the business to ensure that all liabilities can be met as they fall due.

GOING CONCERN

The financial position of the Company continues to be encouraging and cash flows are as expected. The capital structure of the Company has remained stable for a considerable period and financial risk management processes are in place to maintain the Company's liquidity and solvency position.

Having taken into account the risks and uncertainties disclosed in Note 2, the performance of the business and after making enquiries, the Directors have a reasonable expectation 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.

SUBSEQUENT EVENTS

The Company is not aware of any events which materially impact the financial information disclosed.

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The Company's largest potential risk is that technical provisions may prove to be inadequate or excessive. This risk is substantially transferred to the parent company by way of reinsurance. Accordingly, the Company has substantial credit exposures to its currently AA+ rated parent company.

In light of the referendum vote for the UK to leave the EU (Brexit) and the consequential uncertainties in the political and economic environment there have been a number of implications for the Company.

In addition to regulatory change the Directors are aware that Brexit also has potential to increase volatility in the markets with the sudden devaluation of Sterling being the most visible sign to date.

The Director's consider the current investment policy and matching of liabilities and assets in currency to put the Company on a sound basis to deal with any market volatility.

Approved by the Board of Directors
and signed on behalf of the Board

A Wilson
Director

Date: 19 May 2017

TRANSFERCOM LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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.

By order of the Board

A Wilson
Director
Date: 19 May 2017

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TRANSFERCOM LIMITED

We have audited the financial statements of Transfercom Limited for the year ended 31 December 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes 1 to 18. 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 FRS102 "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 financial statements sufficient to give reasonable assurance that the 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 insurer'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 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 Company's affairs as at 31 December 2016 and of its loss 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 Matters Prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

TRANSFERCOM LIMITED

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TRANSFERCOM 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.

Andrew Downes

Andrew Downes (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
Date: 19 May 2017

TRANSFERCOM LIMITED

STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2016

	Notes	2016 $000	2015 $000
TECHNICAL ACCOUNT			
Total Technical Income		-	-
Claims paid:			
Gross amount		(14,957)	(13,337)
Reinsurers' share		14,957	13,337
Claims paid, net of reinsurance		-	-
Change in provision for claims:			
Gross amount		34,944	23,295
Reinsurers' share		(34,944)	(23,295)
Net change in the provision for claims		-	-
Claims incurred, net of reinsurance		-	-
Net operating expenses	4	(661)	(832)
Total Technical Expense		(661)	(832)
Balance on the general business technical account		(661)	(832)
NON-TECHNICAL ACCOUNT			
Balance on the general business technical account		(661)	(832)
Investment return	5	456	152
Net foreign exchange losses		(792)	(315)
Loss on ordinary activities before tax		(997)	(995)
Tax income/(expense)	9	16	(79)
Loss for the year		(981)	(1,074)

The accompanying notes are an integral part of the annual accounts.

TRANSFERCOM LIMITED

STATEMENT OF FINANCIAL POSITION
At 31 December 2016

	Notes	*2016* *$000*	*2015* *$000*
Assets			
Financial investments	10	42,967	123,978
Reinsurance assets	3,11	344,053	305,091
Insurance and other receivables	12	7,658	4,188
Cash and cash equivalents	13	9,108	13,238
Total Assets		403,786	446,495
Liabilities and Equity			
Liabilities			
Insurance liabilities	3,11	344,053	305,091
Current taxation		-	-
Insurance and other payables	14	4,087	84,777
Total Liabilities		348,140	389,868
Equity			
Called up share capital	15	43,000	43,000
Retained earnings		12,646	13,627
Total Equity		55,646	56,627
Total Liability and Equity		403,786	446,495

The accompanying notes are an integral part of the annual accounts.

Approved at a meeting of the Board of Directors and signed on its behalf.

A Wilson
Director
Date: 19 May 2017

STATEMENT OF CASH FLOW
For the year ended 31 December 2016

	Notes	2016 $000	2015 $000
Cash generated from operations			
Cash flows from operating activities	16	(85,430)	(5,577)
Tax paid		-	-
Net cash outflow from operating activities		(85,430)	(5,577)
Cash flows from investing activities			
Sale of Investments net of purchases		81,408	16,126
Net cash inflow from investing activities		81,408	16,126
Net increase/(decrease) in cash and cash equivalents		(4,022)	10,549
Cash and cash equivalents at beginning of year		13,238	2,719
Effect of exchange rate fluctuations on cash and cash equivalents		(108)	(30)
Cash and cash equivalents at the end of the year	13	9,108	13,238

The accompanying notes are an integral part of the annual accounts.

TRANSFERCOM LIMITED

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2016

	Notes	*Share Capital* *$000*	*Retained Earnings* *$000*	*Total Equity* *$000*
At 1 January 2015		43,000	14,701	57,701
Retained loss for the financial year		-	(1,074)	(1,074)
At 31 December 2015		43,000	13,627	56,627
At 1 January 2016		43,000	13,627	56,627
Retained loss for the financial year		-	(981)	(981)
At 31 December 2016		43,000	12,646	55,646

The accompanying notes are an integral part of the annual accounts.

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are summarised below. These policies have been applied consistently throughout the year and to the preceding year.

(A) General Information

The Company is a private limited company incorporated and domiciled in Great Britain, and transacted insurance and reinsurance business in the London Market until 2003. Since that date the business has been in run-off. The address of the registered office is given on page 1.

The Financial Statements have been prepared in accordance with Financial Reporting Standards 102 & 103 (FRS 102 & 103) applicable in the United Kingdom and Republic of Ireland and provisions of Section 396 of the Companies Act 2006. The financial statements have been prepared on the going concern basis as explained in the Strategic Report on page 3.

(B) Basis of Preparation

The functional currency of Transfercom Ltd is considered to be US Dollars because that is the currency of the primary economic environment in which the Company operates, and the currency of the largest proportion of the Company's assets and liabilities, having regard to the duration of those liabilities. The Financial Statements are also presented in US Dollars. Unless otherwise noted, the amounts shown in these financial statements are in thousands of US Dollars ("$000").

In accordance with FRS102 & FRS 103, the Company has applied existing accounting policies for insurance contracts. Opportunity has been taken to provide more relevant narrative information in the accounting policies and notes to support the financial statements. These clarifications have not resulted in either changes in accounting estimates or changes to any prior year numbers. The change to FRS 102 and FRS 103 has had no impact on loss before, loss after tax or shareholders equity.

The underwriting activities of all classes of business are accounted for on an annual basis.

(C) Going Concern

Having taken into account the risks and uncertainties and the performance of the business as disclosed in the Directors' Report and Strategic Report, and after making enquiries, there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. As a result, the Company continues to adopt the going concern basis in the preparation of the financial statements.

(D) Critical Accounting Policies and the Use of Estimates

The preparation of financial statements requires the Company to select accounting policies and make estimates and assumptions that affect items reported in the statement of comprehensive income, statement of financial position, other primary statements and notes to the financial statements. This is particularly so in the estimation of amounts for insurance liabilities, for which further details are given in policy G below and in note 11 to these financial statements. All estimates are based on management's knowledge of current facts and circumstances, assumptions based on that knowledge and their predictions of future events and actions. Actual results may differ from those estimates, possibly significantly.

(E) Foreign Currency Translation

Transactions in foreign currencies other than US Dollars are converted at the rate of exchange prevailing on the dates of the transactions, or at the average rate where this is a reasonable approximation. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into US Dollars at the rates of exchange prevailing at that date.

Exchange differences are recognised in the profit or loss in the period in which they arise.

Non-monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into US Dollars at the historic rate pertaining on the date of the transaction.

(F) Claims Incurred

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in the provisions for outstanding claims and settlement expenses, including claims incurred but not reported, net of salvage and subrogation recoveries.

Outwards reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inwards reinsurance business being reinsured.

(G) Outstanding Claims Provision

Provision is made for outstanding claims and settlement expenses incurred at the reporting date including an estimate for the cost of claims incurred but not reported at that date. Included in the provision is an estimate of the internal and external costs of handling the outstanding claims. Material salvage and other recoveries are deducted from outstanding claims.

The provision for claims outstanding is based on information available at the reporting date. Significant delays are experienced in the notification and settlement of certain claims and accordingly the ultimate cost of such claims cannot be known with certainty at the reporting date. Subsequent information and events may result in the ultimate liability being less than, or greater than, the amount provided. Any differences between provisions and subsequent settlements are dealt with in the general business technical account of later years.

Reinsurers' share of technical provisions represents the amount of the Company's gross claims outstanding that is recoverable from reinsurers, calculated by reference to policy limits or cession percentages, adjusted as appropriate for commuted proportions and having regard to collectability.

(H) Net Investment Income

Investment income, excluding the tax credit and interest income is recognised on an accruals basis, taking into account the effective yield on the investment. Investment expenses are also recognised on an accruals basis. All investment and interest income is recognised through the income statement. Interest payments made to the parent company in respect of funds supplied are recognised in the income statement.

A gain or loss on a financial investment is only realised on disposal or transfer, and is the difference between the proceeds received, net of transaction costs, and its carrying value.

Unrealised gains and losses, arising on financial investments which have not been derecognised as a result of disposal or transfer, represent the difference between the carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognised unrealised gains and losses in respect of disposals made during the year.

(I) Recognition and Derecognition of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of a contract. The Company has designated on initial recognition its financial assets held for investment purposes (investments) at fair value through profit or loss (FVTPL). Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

A financial asset is derecognised when either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition under a combination of risks and rewards and control tests. A financial liability is derecognised when it is extinguished which is when the obligation in the contract is discharged, cancelled or expired.

(J) Cash and Cash Equivalents

Cash and cash equivalents in the statement of financial position include cash in hand, deposits held at call with banks and other short-term highly liquid investments with a maturity of three months or less at the date of acquisition.

(K) Taxation

Current income tax is the expected tax payable on the taxable profit for the period using tax rates (and laws) enacted or substantively enacted at the date of the reporting date and any adjustment to the tax payable in respect of previous periods. The Company calculates current income tax using current income tax rates.

Deferred taxation is provided for using the liability method on all timing differences, arising from the different treatment of items for accounting and taxation purposes, calculated at the rates at which it is expected that tax will arise. Deferred tax balances are not discounted.

(L) Receivables

Receivables, including inter-company loans, are recognised initially at their fair value and are subsequently assessed for indicators of impairment at each reporting date. If there is objective evidence of impairment, an impairment loss is recognised through the profit and loss account.

(M) Payables and Other Financial Liabilities

Payables, including inter-company amounts payable, are recognised at their fair value.

(N) Provisions

Provisions are liabilities with uncertainties in the amounts or timing of payments. Provisions are recognised if there is a present obligation as a result of past events, that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made at the date of the statement of financial position.

(O) Liability Adequacy Test

At each reporting date, a liability adequacy test is performed on insurance liabilities to ensure that the carrying value is adequate, using current estimates of future cash flows, taking into account the relevant investment returns. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognised by recording an additional liability for claims provision. The provision is assessed in aggregate for business classes which are managed together.

2. RISK MANAGEMENT

A related company, Resolute Management Limited, has developed a Risk Management Framework applicable for all companies materially in run-off. The Board have approved this as applicable to Transfercom Limited. This framework has the following key elements:-

- A clear organisational structure with defined authorities and responsibilities;
- Defined terms of reference for the Board of the Company and management committees; and
- Adoption of the Company risk management framework that defines risk appetite measures and sets out risk management and control standards for the Company's operations. The risk management framework also sets out the roles and responsibilities of businesses, policy owners and risk oversight committees.

The Company operates a risk management framework, which is a collection of processes and tools that have been put in place to ensure that the risks to which it is exposed are identified, measured, managed, monitored and reported on a continuous basis. The key instruments of this framework include the risk management policies, risk reports, the governance and oversight infrastructure and the risk appetite framework. The Company works within this risk management framework.

The Company has a set of formal risk policies that facilitate a consistent approach to the management of all the Company's risks across all business streams and locations in which the Company operates. These risk policies define the Company's appetite for different, specific risk types and set out risk management and control standards for the Company's operations. The Company sets limits to manage material risks to ensure the risks stay within risk appetite (the amount of risk the Company is willing to accept). Where risks are outside of appetite, actions are agreed to mitigate the exposure.

In addition to monitoring regulatory Solvency under applicable UK Prudential Regulation Authority (PRA) regulations, the PRA also requires the Company to assess its economic capital requirements to ensure that it adequately reflects the risks facing the business. The main risks being faced by the Company are as follows:-

(i) *Insurance Risk*

The Company is in run-off and considers insurance risk within its general insurance activity to be the management of claims and the adequacy of reserving. The risk relates to the inherent uncertainty around the level of reserves held. Actuarial claims reserving is conducted by Resolute Management Services Limited, a related company with actuarial expertise on a prudent basis such that reserves are more likely to be overstated rather than understated, however there remains a reasonable possibility that the final outcome will show that reserves are understated and possibly by a material margin; the Company therefore has a moderated reserving risk. All business is reinsured as the Company is party to a reinsurance agreement with its parent company which provides substantial protection in excess of current gross liabilities. The adequacy of the Company's reserves is overseen by the Board who are also responsible for capital requirements.

(ii) *Credit Risk*

Credit Risk is the risk of loss in the financial assets due to counterparties failing to meet all or part of their obligations. In the event of significant adverse claims experience, the Company is highly reliant on the ability of its parental reinsurer, National Indemnity Company ("NICO") to respond. Based on year end available figures, NICO reported surplus assets of greater than US$101bn and total assets of US$182bn and is rated AA+ by S&P rating agency.

(iii) Liquidity Risk

Liquidity risk is the risk that the Company cannot meet its obligations associated with financial liabilities as they fall due. This risk is largely mitigated by the investment guideline requirements which ensure compliance with the operational risk appetite statements. The company retains significant liquid balances and the investment portfolio is such that it may be converted to liquid assets at short notice, and the company also has the ability to make cash calls on its reinsurer. Given that liquidity is not a material risk for the Company, no specific risk sensitivity is provided.

(iv) Market Risk

Market Risk is the risk of an adverse financial impact due to changes in future cash flows of financial instruments due to fluctuations in interest rates and market prices. The Company's investment strategy is conservative and investment guidelines require funds held which support the Company's solvency requirement to be invested in fixed interest securities with a credit rating of A and above held to maturity. The Company has no off-balance sheet transactions and has a policy of not investing in derivative contracts.

(v) Operational Risk

Operational Risk is the risk of an adverse financial impact due to being in business and can arise from the operation's people, processes, and systems. These risks are managed through controls that are aligned with the Board's risk appetite and monitored in an early warning indicator system based on key risk indicators that are reported quarterly to the Risk Committee. Key Risks, Controls and Indicators are reviewed annually.

Sensitivity, Scenario and Stress Testing

The Company uses a number of sensitivity or stress-test based risk management tools to understand the impact of the above risks on earnings and capital in both normal and stressed conditions. These stress tests combine deterministic shocks, analysis of historical scenarios and stochastic modelling using the capital model to inform the decision making and planning process.

Scenario testing is also undertaken based on a number of management defined scenarios. They are by definition considered to be adverse, and potentially extreme, events and therefore a representation of the circumstances that may apply and prompt one of the adverse scenarios in the capital modelling; they are used to help contextualise extreme outcomes projected by modelling. Macro-economic and specific company scenarios are considered for scenario testing. The company specific scenarios considered relate to claims reserving scenarios where a class of claim develops materially worse than expected or there is a new claim type.

The profit on ordinary activities before tax is not sensitive to the actual reserving outcome being different from the expected outcome because all business is reinsured by the parent company.

Reverse Stress Testing is designed to identify events that would potentially lead to either the business model becoming unviable, or business failure. A reverse stress testing exercise is carried out annually.

The results of the sensitivity, scenario and stress testing undertaken are regularly produced to inform the Company's decision-making and planning processes, and as part of the framework for identifying and quantifying the risks to which the Company is exposed. The key sensitivity has been determined to be in relation to the reinsurance credit risk, a significant change of which could materially effect the amount, timing and uncertainty of the Company's future cash flows and profit.

The results of the sensitivity for reinsurance credit risk by substituting the current Reinsurer credit rating with a Credit rating of A has an impact on the ORSA ultimate capital requirement, but a relatively low effect on the Solvency II requirements to the 99.5% probability of meeting liabilities over a one year timeframe. This is because the potential for default in the following year remains small. Such a change to the current Reinsurer rating would represent a substantial re-rating of NICO by the rating agencies.

3. PORTFOLIO TRANSFER OF BUSINESS

On February 26, 2016 the Company gained approval from the UK Court and Prudential Regulation Authority for the Company to accept the transfer of insurance liabilities from Sompo Japan Nipponkoa Insurance Inc., under Part VII of the Financial Services and Markets Act 2000, effective from 3 March 2016. The underwriting exposure is reinsured with the Company's parent undertaking.

	2016 $000	2015 $000
Consideration received for Inwards liabilities	50,111	-
Paid to Parent Company for reinsurance	(50,111)	-
Portfolio of Inwards Liabilities:		
Provision for outstanding claims reserves	(9,847)	-
Provision for claims incurred but not reported	(66,153)	-
Total Portfolio of Inwards Liabilities	(76,000)	
Reinsured by Parent Company	76,000	-
Loss Portfolio net of reinsurance	-	-

4. NET OPERATING EXPENSES

	2016 $000	2015 $000
Administrative expenses	1,432	1,130
Interest payable	660	832
Gross operating expenses	2,092	1,962
Amounts ceded to parent undertaking (see below)	(1,431)	(1,130)
Net operating expenses	661	832

Administrative expenses incurred during 2016 amounting to $1,431,000 (2015 - $1,130,000), were ceded to the Company's parent undertaking. Interest is payable to the Company's parent undertaking on the balance of the funds withheld by the Company and used to settle amounts falling due on the reinsurance of the portfolio of insurance liabilities transferred to the Company in 2011.

5. INVESTMENT RETURN

Year ended 31 December 2016	Investment Income $000	Net realised gains $000	Net unrealised gains $000	Total investment return $000
Debt securities	-	326	71	397
Other investments	32	-	-	32
Cash and cash equivalents	32	-	-	32
Investment expense	(5)	-	-	(5)
Total investment return	59	326	71	456

Year ended 31 December 2015				
Debt securities	-	63	45	108
Other investments	33	-	-	33
Cash and cash equivalents	11	-	-	11
Investment expense				
Total investment return	44	63	45	152

6. AUDITOR'S REMUNERATION

	2016 $000	2015 $000
Fees for the audit of the Company's annual accounts and regulatory returns	51	47

The Company's auditor did not provide any other services to the Company in 2016 and 2015.

7. STAFF COSTS

The Company has no full time employees, with services provided by another Group Company and, accordingly, no direct staff costs are incurred by the Company. During the year an amount of $660,089 (2015: $601,036) has been charged into the Company for the provision of these services.

8. DIRECTORS' EMOLUMENTS

	2016 $000	2015 $000
Emoluments charged from another Group Company	197	191

This represents the emoluments charged into the Company for the services of two non-executive directors and one executive director during the year. The other directors (two non-executive directors and one director) do not receive any remuneration specifically for activity as directors of this Company. Their costs are borne by another Group Company and not recharged. The Company did not make any contribution to any pension scheme and no director is entitled to any other benefits.

9. TAXATION AND DEFERRED TAX

The standard rate of current tax for the year is 20% (2015 - 21% to March 31, and 20% thereafter). The current tax charge for the year is not 20% (2015: 20.25%) for the reasons set out below:

	2016 $000	2015 $000
Loss on ordinary activities before tax	(981)	(995)
Tax on Loss on ordinary activities at standard rate	(196)	(201)
Factors affecting tax charge:		
Current year unrelieved losses	196	201
Effect of retranslation to US$	-	-
Corporation Tax charge re prior years	(16)	79
Total	(16)	79

No provision is made for potential deferred tax assets (2015: nil) as this is dependent upon the availability of future profits within this Company or the rest of the UK group.

The amount of deferred tax not recognised:	2016 $000	2015 $000
Corporation tax losses carried forward	397	201

There is no expiry date on these unused tax losses.

10. FINANCIAL INVESTMENTS

All financial investments have been designated as held at fair value through profit or loss.

The Company has classified the fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making those measurements. The fair value hierarchy comprises the following levels:

(a) Level (i) – fair values measured using quoted prices (unadjusted) in active markets for identical assets. An active market exists where transactions take place with sufficient frequency and volume to provide pricing information on an on-going basis.
Level (i) investments

As at December 2016	Historical Cost $000	Unrealised gain $000	Estimated Fair Value $000
U.S. treasuries	42,896	71	42,967
Total investments	42,896	71	42,967

As at December 2015	Historical Cost $000	Unrealised gain $000	Estimated Fair Value $000
U.S. treasuries	123,933	45	123,978
Total investments	123,933	45	123,978

(b) Level (ii) – fair values measured using inputs other than quoted prices included within level one that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

The Company has no Level (ii) investments

(c) Level (iii) – inputs for the assets that are not based on observable market data (unobservable inputs).

The Company has no Level (iii) investments

A detailed maturity analysis table has not been provided as cash, deposits and investments are of a short term nature with cash and deposits being repayable on demand and all bonds maturing within a period of 12-18 months from the December 2016 year end.

11. INSURANCE LIABILITIES AND REINSURANCE ASSETS

(a) Carrying amounts

The following is a summary of the gross insurance liabilities and the related reinsurance assets as at 31 December:

As at December 2016	Gross Insurance Liabilities $000	Reinsurance Assets $000	Net $000
Provision for outstanding claims reserves	78,315	78,315	-
Provisions for claims incurred but not reported	244,801	244,801	-
Provision for claims run-off expenses	20,937	20,937	-
Total claims provisions and run-off expenses	344,053	344,053	-

As at December 2015	Gross Insurance Liabilities $000	Reinsurance Assets $000	Net $000
Provision for outstanding claims reserves	79,937	79,937	-
Provisions for claims incurred but not reported	203,620	203,620	-
Provision for claims run-off expenses	21,534	21,534	-
Total claims provisions and run-off expenses	305,091	305,091	-

Further details of the gross liabilities are described in (b), (c) and (d) below.

Of the above reinsurance assets total, approximately $331 million (2015: $294 million) of the reinsurance assets is expected to be recovered in more than one year after the statement of financial position date.

(b) Provisions for gross outstanding claims insurance liabilities

Outstanding claims provisions are estimated based on known data and information at the date of estimation. Case estimates are generally set by counsel or skilled claims technicians applying their experience and knowledge to the circumstances of individual claims, taking into account all available information and correspondence regarding the circumstances of the claim, such as medical reports, investigations and inspections. Claims technicians set case estimates according to documented claims department policies and specialise in setting estimates for certain lines of business or types of claim. Claims above certain limits are referred to senior claims handlers for authorisation.

Delays occur in the notification and settlement of claims and a substantial measure of experience and judgement is involved in assessing insurance liabilities, the ultimate cost of which cannot be known with certainty at the statement of financial position date. The reserves are based on information currently available. However, it is inherent in the nature of the business written that the ultimate liabilities may vary as a result of subsequent developments.

(c) Estimates and assumptions

In order to arrive at the appropriate level of gross provision, the Company has reviewed the information currently available including outstanding loss advices, past development of notifications and industry benchmarks.

It is believed that the aforementioned have been appropriately considered in estimating ultimate losses that have occurred, including future developments in known claims as well as those yet to be reported.

However, the future uncertainties that are inherent in the estimating process are such that future developments might cause these provisions to be inadequate or excessive.

In addition, a significant portion of exposure remaining open is mass tort or latent injury. This exposure is dominated by asbestos and environmental claims but other situations are represented as well. The uncertainties concerning these claims are increased by legislation and judicial actions that are attempting to expand the availability of indemnity. One characteristic of these types of claims is that they are not subject to traditional actuarial analysis. With traditional actuarial analysis, projections of future claims development are heavily informed by observations of past claim development for claims in the same class, especially with regard to the development of each underwriting year.

The future emergence and settlements for the type of claims mentioned above is not adequately described by the patterns of the broader class of liability business from the past. As a result, traditional analysis of historical loss development triangles yields no information useful in projecting the future progression of these losses.

However the industry has built up a considerable body of knowledge with respect to the development of mass tort situations. Based on this body of industry information, benchmark valuations involving both the "Survival Ratio" and the ratio of required IBNR to notified claims, and which require much subjective judgment, can be used to establish estimates of the Company's future liability. In this context, with knowledge of these previous benchmark valuations, together with an understanding of the current period claims run-off, an assessment has been made to estimate future requirements. Notwithstanding this assessment, it is considered that significant uncertainty remains in respect of the provisions, which is greater than the uncertainty that would be normally expected for insurance technical provisions at this stage of development. In response to this, the Company has purchased run-off reinsurance from its parent company that substantially mitigates these uncertainties in the level of net reserves.

Any reserving approach requires judgement, and involves an understanding of the nature of the liabilities and the selection of the particular methodology, as well as many decisions on how best to apply both the factual claims data and the other knowledge gained. Every book of liabilities that arises from underwriting over a long period will be different and it is important to pay special attention to those areas of the account where the most material uncertainties are believed to lie.

(d) Loss Development Tables

The Company ceased to write business in the London market in 2003. Since that date the business has been in run-off. As mentioned in the Strategic Report, effective the 3 March 2016, the company received the transfer of a portfolio of insurance liabilities. These liabilities are in respect of insurance that was underwritten between 1963 and 2000.

Existing business 2003 and prior years	As at 2012 $000	As at 2013 $000	As at 2014 $000	As at 2015 $000	As at 2016 $000
Gross Claim Insurance Liabilities	362,967	346,092	331,589	305,091	265,850
Gross Recovery from reinsurers	362,967	346,092	331,589	305,091	265,850
Total Net Insurance Liabilities	-	-	-	-	-

Portfolio transfer 2000 and prior years	As at 2012 $000	As at 2013 $000	As at 2014 $000	As at 2015 $000	As at 2016 $000
Gross Claim Insurance Liabilities	-	-	-	-	78,203
Gross Recovery from reinsurers	-	-	-	-	78,203
Total Net Insurance Liabilities	-	-	-	-	-

(e) Movements in insurance and reinsurance contracts

The following is a summary of the movements in the gross insurance liabilities and the related reinsurance assets during the year ended 31 December:

Year ended 31 December 2016	Gross Insurance Liabilities $000	Reinsurance Assets $000	Net $000
Claims and run-off expenses as at 1 January	305,091	305,091	-
Claims and expenses paid in the year	(16,388)	(16,388)	-
Portfolio transfer in of business	76,000	76,000	-
Provision for run-off expenses on portfolio transfer in	5,000	5,000	-
Increase/(Decrease) in liabilities/assets	(20,000)	(20,000)	-
Net foreign exchange differences	(5,650)	(5,650)	-
Claims and run-off expenses as at 31 December	344,053	344,053	-

Year ended 31 December 2015	Gross Insurance Liabilities $000	Reinsurance Assets $000	Net $000
Claims and run-off expenses as at 1 January	331,589	331,589	-
Claims and expenses paid in the year	(14,467)	(14,467)	-
Increase/(Decrease) in liabilities	(10,000)	(10,000)	-
Net foreign exchange differences	(2,031)	(2,031)	-
Claims and run-off expenses as at 31 December	305,091	305,091	-

12. INSURANCE AND OTHER RECEIVABLES

	2016 $000	2015 $000
Arising out of reinsurance operations	1,294	569
Amounts due from immediate parent undertaking	1,356	3,611
Amounts due from other Group Companies	5,000	-
Prepayments	4	7
Accrued interest	4	1
Total	7,658	4,188

13. CASH AND CASH EQUIVALENTS

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash.

	2016 $000	2015 $000
Cash at bank and on deposit	4,685	6,025
Cash equivalents	4,423	7,213
Total	9,108	13,238

14. INSURANCE AND OTHER PAYABLES

	2016 $000	2015 $000
Arising out of reinsurance operations	3,828	84,276
Amounts due to other Group Companies	177	224
Accruals and deferred income	82	277
Total	4,087	84,777

15. SHARE CAPITAL

	2016 $000	2016 $1 each Number	2015 $000	2015 $1 each Number
Ordinary shares:				
Allotted, issued and fully paid shares	43,000	43,000,000	43,000	43,000,000

The objective of the Company in managing its capital is to ensure that it will be able to continue as a going concern and comply with the regulators' capital requirements of the markets in which the Company operates. The level of the surplus capital held by the Company is based on its risk appetite and provides flexibility, allowing the Company to deal with shock events and to take advantage of opportunities as they arise.

The capital structure of the Company consists of equity attributable to shareholders, comprising ordinary shares and retained earnings as disclosed above and in the Statement of Changes in Equity.

The Company was in compliance with capital requirements imposed by regulators throughout the financial year.

The capital requirement of the Company is determined by its exposure to risk and the solvency criteria established by management and statutory regulations.

The table below sets out the Solvency II capital surplus position of the Company:

	2016 $000
Own Funds	45,804
Solvency capital requirement	5,667
Solvency II capital surplus	40,137
Solvency Cover %	808.20%

2015 comparatives are not disclosed as this is the first year of the Solvency II capital regime.

The Company fully complied with all externally imposed capital requirements throughout the financial year.

There were no changes made to the capital base nor to the objectives, policies and processes for managing capital during the financial year.

16. CASH FLOWS PROVIDED BY OPERATING ACTIVITIES

The reconciliation of the result before tax to the net cash inflow from operating activities is:

	2016 $000	2015 $000
Loss before tax	(997)	(995)
Adjusted for non-cash movements:		
Realised & unrealised gains	(397)	(108)
Net foreign exchange losses	760	309
Movement in operating assets & liabilities:		
Insurance and other receivables	(3,631)	4,814
Insurance and other payables	(81,165)	(9,597)
Cash Flow provided by operating activities	(85,430)	(5,577)

17. RELATED PARTY TRANSACTIONS

(a) All related party transactions are carried out on an arms-length commercial terms. The Company had the following related party transactions in 2016 and 2015:

(i) *Services provided to and from related parties*

	2016 Receivable at year end $000	2016 Payable at year end $000	2015 Receivable at year end $000	2015 Payable at year end $000
<u>Controlling Category</u>				
Parent – National Indemnity Company	1,356	-	3,611	-
<u>Key management personnel and services</u>				
Resolute Management Limited	-	141	-	201
Resolute Management Services Limited	-	36	-	22
Berkshire Hathaway International Insurance Limited	-	-	-	1
The Scottish Lion Insurance Company Limited	5,000	-	-	-
Total	6,356	177	3,611	224

The related parties' receivables are not secured and no guarantees were received in respect thereof.

The Company has taken advantage under Section 33.1A, Financial Reporting Standards 102, not to disclose transactional details as all related parties are members of a group that is wholly owned by one such member of that group.

(ii) Services provided by related parties

Reinsurance agreements are in place with the parent National Indemnity Company. Resolute Management Ltd and Resolute Management Services Ltd. provide claims and administrative services.

(iii) Key management compensation

The key management of the Company are considered to be the statutory directors of the Company. Note 8, directors' emoluments, gives details of their compensation as directors of the Company.

(iv) Intra Group Subordinated Loan

On 23 November, 2016 the company entered into a US dollar sub-ordinated loan facility with The Scottish Lion Insurance Company Limited (SLIC) and on 29 November, 2016 SLIC utilised this facility to borrow $5m repayable in 10 years' time. Interest is to be received on this loan semi-annually and is to be a fixed rate of the United Kingdom Bank of England Official Bank Rate plus 0.50 per cent. per annum.

(b) Parent Companies

The Company's immediate parent company is National Indemnity Company, a company incorporated in the state of Nebraska.

The Company's ultimate parent company, controlling party, company which heads the largest group of undertakings for which group accounts were drawn up and of which the Company was a member of, is Berkshire Hathaway Inc. incorporated in the United States of America.

The parent undertaking which heads the smallest group of undertakings for which group accounts were drawn up and of which the Company is a member is National Indemnity Company, a company incorporated in the state of Nebraska.

The consolidated financial statements of both of these companies are available to the public and may be obtained from 1440 Kiewit Plaza, Omaha, Nebraska, USA 68131.

18. SUBSEQUENT EVENTS

There are no events that have occurred between the date to which these statements are prepared (31 December 2016) and to the date of signing by the board 19th May 2017 which materially impact the financial information disclosed therein.