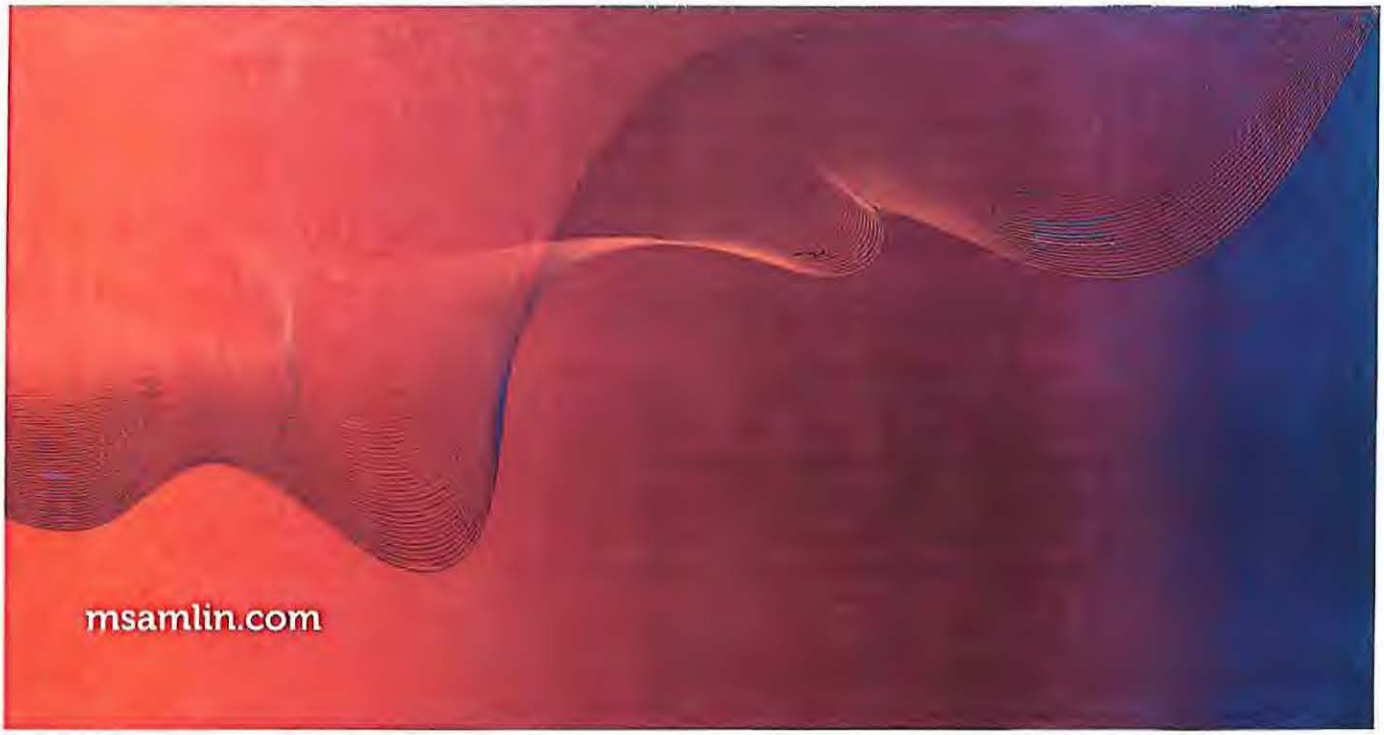
MS Amlin

MS Amlin AG
2017 Annual Report



Contents

Directors, officers and advisors

Directors

Supervisory Board

R Adam	
M Albers	(Chairman)
M Burke	
S Materne	
R Hextall	(resigned with effect from 18 August 2017)

Executive Board

P da Camino Soligo	(Chief Compliance Officer)
J Domenichini	(Chief Underwriting Officer, EMEA) (appointed with effect from 12th March 2018)
C Farnworth	(Chief Risk Officer) (appointed with effect from 8 March 2017)
K McDonald	(Chief Financial Officer) (appointed with effect from 22 August 2017)
G Mauchamp	(Chief Executive Officer and Chairman)
R Wyatt	(Chief Executive Officer, Bermuda branch; Chief Underwriting Officer, Americas)
C Bieri	(resigned with effect from 31 August 2017)
Y Poster	(Chief Financial Officer) (resigned with effect from 22 August 2017)
N Hornsey	(Company Secretary) (resigned with effect from 23 March 2018)

Secretary

J Simek

Registered office

Kirchenweg 5
8008 Zurich
Switzerland

Auditors

KPMG AG
Badenerstrasse 172
CH-8004 Zurich
Switzerland

Directors' report
For the year ended 31 December 2017

The Directors present the annual report and the audited financial statements for the year ended 31 December 2017 of MS Amlin AG (the Company). The Company is a wholly owned subsidiary of MS Amlin plc (the Parent) whose parent is Mitsui Sumitomo Insurance Company, Limited (MSI), a wholly owned subsidiary of MS&AD Insurance Group Holdings, Inc.

The Company is incorporated in Switzerland and operates in Zurich with branches in Bermuda and Labuan. MS Frontier Modeling Research Pte Ltd (MSFMR), a wholly owned subsidiary in Singapore, was struck off as of 5 June 2017.

The Company is supervised by the Swiss Financial Market Supervisory Authority (FINMA), while its branches are under the supervision of the Bermuda Monetary Authority (BMA), and the Labuan Financial Services Authority (LFSA) respectively.

Business review and principal activities
Through the Bermuda branch, the Company carries out reinsurance business principally on a geographically spread catastrophe and property account. In addition, Syndicate 2001 (the Syndicate), a Lloyd's Syndicate managed within the MS Amlin group, has placed a number of reinsurance contracts with the Company. The reinsurance contracts are:

- a number of proportional treaty and excess of loss contracts covering cessions of various classes of business; and
- a whole account quota share which covers a specific cession from all classes of business written by the Syndicate, including marine, non marine, aviation and UK commercial on a global basis.

The operation in Zurich was set up to write European non-life reinsurance from Zurich and mainly targets small and mid-sized insurance companies. It offers comprehensive reinsurance solutions over all non-life classes and products.

The operation in Labuan carries out reinsurance business made up of principally excess of loss and proportional business geographically located in East and South East Asia.

Results and dividends
The loss for the Company for the year ended 31 December 2017 amounted to $241.7 million (2016: profit of $46.1 million), full details of which are set out in the statement of profit or loss on page 6 and the related notes.

On 26 April 2017 the Directors recommended for approval by the shareholders at the Annual General Meeting held on the same date the payment of a $554.0 million dividend. The dividend payment was approved by the shareholders and was paid on 8 May 2017.

Directors
The Directors who served during 2017 were:

Supervisory Board
R Adam
M Albers
M Burke
S Materne
R Hextall

Executive Board
P da Camino Soligo
C Farnworth
G Mauchamp
K McDonald
R Wyatt
C Bieri
Y Poster

At the Annual General Meeting on 23 April 2018, all members of the Supervisory Board, with the exception of R Hextall, will be standing for re-election each for a term of one year.

Auditors
The auditors for the year ended 31 December 2017 were KPMG AG.

By Order of the Board of Directors

J Simek
Secretary

Statement of Directors' responsibilities

The Directors are responsible for preparing the financial statements in accordance with applicable law and regulations in Switzerland. In addition to the preparation of financial statements in accordance with Swiss Company Law, the Directors have elected to prepare these financial statements in accordance with International Financial Reporting Standards (IFRS) for each financial year.

International Accounting Standard 1 'Presentation of Financial Statements' requires that financial statements present fairly for each financial year the Company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, Directors are also required to:

- properly select and apply accounting policies; and
- state whether applicable IFRS, as adopted, have been followed, subject to any material departures disclosed and explained in the financial statements.

The Directors are responsible for keeping proper accounting records that 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 applicable laws. They are also responsible for safeguarding assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the auditor to the Board of Directors of MS Amlin AG

On your instructions, we have audited the financial statements of MS Amlin AG, which comprise the statement of profit or loss, statement of other comprehensive income, statement of changes in equity, statement of financial position, statement of cash flows, and notes to the financial statements (pages 6 to 45), for the year ended 31 December 2017.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards (IFRS). This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS).

KPMG AG

Bill Schiller
Licensed Audit expert
Auditor in charge

Sabrina Kessler
Licensed Audit expert

Zürich, 23 April 2018

Statement of profit or loss
For the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
Gross earned premium		**1,349,525**	1,276,525
Reinsurance premium ceded		**(131,664)**	(86,530)
Net earned premium		**1,217,861**	1,189,995
Net investment return	4	**111,602**	25,410
Total income		**1,329,463**	1,215,405
Insurance claims and claims settlement expenses		**(1,485,997)**	(816,107)
Insurance claims and claims settlement expenses recoverable from reinsurers		**274,002**	133
Net insurance claims		**(1,211,995)**	(815,974)
Expenses for the acquisition of insurance contracts		**(254,543)**	(234,663)
Other operating expenses	5(a)	**(107,565)**	(107,968)
Total expenses		**(362,108)**	(342,631)
Results of operating activities		**(244,640)**	56,800
Finance costs	5(d)	**(1,898)**	(2,067)
(Loss) / Profit before tax		**(246,538)**	54,733
Tax	6	**4,823**	(8,632)
(Loss) / Profit for the year		**(241,715)**	46,101
Attributable to Owners of the Company		**(241,715)**	46,101

The attached notes and information on pages 12 to 45 form an integral part of these financial statements.

All activities relate to continuing operations.

Statement of other comprehensive income
For the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
(Loss)/Profit for the year		**(241,715)**	46,101
Items that will not be reclassified to profit or loss			
Defined benefit pension fund (losses)/gains	13(a)	**(417)**	1,683
Deferred tax/(income) relating to items that will not be reclassified	6	**88**	(356)
		(329)	1,327
Items that may be reclassified subsequently to profit or loss			
Foreign exchange gains/(losses) on translation of the Zurich operation		**10,519**	(3,298)
Unrealised losses on financial assets designated as available-for-sale		**(109)**	-
Other comprehensive income/(expense) for the year, net of tax		**10,081**	(1,971)
Total comprehensive (expense)/income for the year		**(231,634)**	44,130
Attributable to Owners of the Company		**(231,634)**	44,130

The attached notes and information on pages 12 to 45 form an integral part of these financial statements.

All activities relate to continuing operations.

Statement of changes in equity
For the year ended 31 December 2017

For the year ended 31 December 2017	Notes	Share capital $'000	Share premium $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total equity and reserves $'000
At 1 January 2017		10,204	1,335,071	(18,302)	1,226,450	**2,553,423**
Profit for the year					(241,715)	**(241,715)**
Other comprehensive income/(expenses) for the year				10,517	(436)	**10,081**
Total comprehensive income/(expense) for the year				10,517	(242,151)	**(231,634)**
Dividend paid	8				(554,000)	**(554,000)**
Transactions with the owner of the Company for the year		-	-	-	(554,000)	**(554,000)**
At 31 December 2017		10,204	1,335,071	(7,785)	430,299	**1,767,789**

For the year ended 31 December 2016	Notes	Share capital $'000	Share premium $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total equity and reserves $'000
At 1 January 2016		10,204	848,704	(15,004)	703,448	1,547,352
Profit for the year		–	–	–	46,101	46,101
Other comprehensive income/(expenses) for the year		–	–	(3,298)	1,327	(1,971)
Total comprehensive income/(expense) for the year		–	–	(3,298)	47,428	44,130
Employee share option scheme:						
– share based payment reserve		–	–	–	888	888
Dividend paid	8	–	–	–	(173,894)	(173,894)
Business acquisitions under common control	3	–	486,367	–	648,580	1,134,947
Transactions with the owner of the Company for the year		–	486,367	–	475,574	961,941
At 31 December 2016		10,204	1,335,071	(18,302)	1,226,450	2,553,423

The attached notes and information on pages 12 to 45 form an integral part of these financial statements.

Statement of financial position
At 31 December 2017

	Notes	2017 $'000	2016 $'000
Assets			
Cash and cash equivalents		**326,149**	1,291,133
Financial assets		**3,045,660**	2,469,767
Reinsurance assets			
– reinsurers' share of outstanding claims	10(a)	**251,207**	26,382
– reinsurers' share of unearned premium	10(c)	**3,327**	3,377
– insurance and reinsurance receivables	10(e)	**1,027,224**	901,211
Other loans and receivables	9(a)	**24,773**	26,798
Related party loan	9(b)	**230,457**	163,237
Deferred acquisition costs	10(d)	**202,399**	189,853
Property and equipment	11	**4,551**	3,092
Intangible assets	12	**1,001**	4,663
Total assets		**5,116,748**	5,079,513
Equity and reserves			
Share capital	14(a)	**10,204**	10,204
Share premium		**1,335,071**	1,335,071
Foreign currency translation reserve		**(7,785)**	(18,302)
Retained earnings		**430,299**	1,226,450
Total equity and reserves		**1,767,789**	2,553,423
Liabilities			
Insurance liabilities			
– outstanding claims	10(a)	**2,170,379**	1,433,962
– unearned premium	10(c)	**894,056**	869,500
– insurance and reinsurance payables	10(f)	**242,419**	153,605
Other payables	9(c)	**23,380**	50,522
Financial liabilities		**5,231**	495
Current income tax liabilities	6	**158**	975
Retirement benefit obligations	13(a)	**8,360**	7,234
Deferred tax liabilities	6	**4,976**	9,797
Total liabilities		**3,348,959**	2,526,090
Total equity, reserves and liabilities		**5,116,748**	5,079,513

The attached notes and information on pages 12 to 45 form an integral part of these financial statements.

The financial statements on pages 6 to 9 were approved by the Board of Directors and authorised for issue on 23 April 2018. They were signed on its behalf by:

Grégoire Mauchamp
Chief Executive Officer

Kate McDonald
Chief Financial Officer

Statement of cash flows
For the year ended 31 December 2017

	Notes	2017 $'000	2016 $'000
(Loss)/Profit before tax		(246,538)	54,733
Adjustments:			
Depreciation charge	11 / 12	4,672	871
Finance costs	5d	1,898	2,067
Interest income		(11,173)	(8,724)
Dividend income		(17,640)	(18,394)
Losses/(Gains) on investments realised and unrealised		(82,789)	1,708
Other non-cash movements		8,369	(2,762)
Movement in operating assets and liabilities:			
Net purchases of financial investments		(400,295)	14,780
Foreign exchange losses on investments		(88,074)	75,310
(Increase)/decrease in other loans and receivables		2,245	(17,953)
Increase in insurance and reinsurance contract assets		(363,333)	(114,404)
Increase in insurance and reinsurance contract liabilities		849,788	195,077
Increase/(decrease) in other payables		(27,142)	16,556
Cash (used in)/generated from operations		(370,012)	198,865
Interest received		11,173	8,724
Dividends received		17,640	18,394
Taxes paid		(2,061)	(2,008)
Net cash outflows/inflows from operating activities		(343,260)	223,975
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	3	-	1,196,967
Purchase of property and equipment	11	(2,349)	(2,113)
Net cash outflows from investing activities		(2,349)	1,194,854
Cash flows from financing activities			
Related party loan	9b	(69,000)	-
Dividend paid	8	(554,000)	(173,894)
Net cash outflows from financing activities		(623,000)	(173,894)
Net increase/(decrease) in cash and cash equivalents		(968,609)	1,244,935
Cash and cash equivalents at beginning of year		1,291,133	48,765
Effect of exchange rate changes on cash and cash equivalents		3,625	(2,567)
Cash and cash equivalents at end of year		326,149	1,291,133

The Company includes cash flows from purchase and disposal of financial assets in its operating cash flows as these transactions are generated by the cash flows associated with the origination and settlement of insurance contract liabilities or capital requirements to support underwriting.

The attached notes and information on pages 12 to 45 form an integral part of these financial statements.

Cash and cash equivalents are carried in the statement of financial position at fair value. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short-term, highly liquid investments which are believed to be subject to insignificant risk of change in fair value.

Statement of cash flows
For the year ended 31 December 2017

Cash and cash equivalents

	2017 $'000	2016 $'000
Cash and cash in hand	**289,939**	214,713
Short-term deposits and other highly liquid investments	**36,210**	1,076,420
	326,149	1,291,133

Cash and cash equivalents represent cash at bank and in hand, short-term bank deposits, and money market funds which represent highly liquid investments

1. Summary of significant accounting policies and critical accounting judgements and estimates
MS Amlin AG (the Company) is incorporated in Switzerland and operates in Zurich with branches in Bermuda and Labuan.

The Company is a wholly owned subsidiary of MS Amlin plc (the Parent).

1.1 Basis of preparation
These financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) and interpretations issued by the IFRS Interpretation Committee (IFRICs).

The financial statements have been prepared on the historical cost basis except for cash and cash equivalents, financial assets and financial liabilities, share options, and pension assets, which are measured at their fair value.

Except where otherwise stated, all figures included in the financial statements are presented in thousands of US dollars shown as $'000 rounded to the nearest $1,000.

1.2 Adoption of new and revised standards
(a) New standards, amendments to published standards and interpretations effective on or after 1 January 2017
The Company has adopted the following new standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

Amendment to IFRS 12, 'Disclosure of Interests in Other Entities'

Amendments to IAS 12, 'Income Taxes' - Recognition of Deferred Tax Assets for Unrealised Losses.

Amendments to IAS 7, 'Statement of cash flows' arising from the Disclosure Initiative.

These amendments did not result in a material impact on the financial statements of the Company.

(b) Standards, amendments to published standards and interpretations early adopted by the Company
The Company did not early adopt any new or amended IFRSs for the year ended 31 December 2017.

(c) Standards, amendments to published standards and interpretations that are not yet effective and have not been early adopted by the Company

IFRS 9, 'Financial instruments'
In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 'Financial Instruments: Recognition and Measurement' and all previous versions of IFRS 9.

The final standard has a mandatory effective date of 1 January 2018 with early adoption permitted, however the IASB have issued 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts Amendments to IFRS 4' that permits but does not require entities that predominantly issue insurance contracts the option to:
- defer the effective date of IFRS 9 Financial Instruments until 2021 (the 'deferral approach'); or
- remove from profit or loss and instead present in other comprehensive income some of the additional accounting mismatches and temporary volatility that could occur before the new insurance contracts Standard is implemented (the 'overlay approach').

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

The adoption of IFRS 9 will have an effect on the classification and measurement and impairment model applied to the Company's financial instruments. An assessment is on-going to quantify the impact of these changes. The Company has elected to apply the deferral approach.

IFRS 15, 'Revenue from Contracts with Customers'
In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers with an effective date of 1 January 2017. In September 2015, an amendment was issued for the effective date to be deferred to annual periods beginning on or after 1 January 2018 with early adoption permitted. In April 2016 the IASB published some clarifications to IFRS 15.

The underlying principle is that an entity will recognise revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services, based on the satisfaction of performance objectives.

Adoption of this standard replaces existing revenue recognition guidance applied by the Company, IAS 18 'Revenue'. It is not expected to have a material impact on the earned income of the Company.

IFRS 16, 'Leases'
In January 2016, the IASB issued IFRS 16 Leases with an effective date of accounting periods beginning on or after 1 January 2019. This new standard replaces IAS 17 Leases.

IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Applying that model, a lessee is required to recognise:
- assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
- depreciation of lease assets separately from interest on lease liabilities in the income statement.

The adoption of IFRS 16 will have a material effect on the Company as leased assets will be grossed up on the statement of financial position along with a corresponding liability. Depreciation on the leased asset and interest charge on the liability will also be accounted for through the profit or loss account.

IFRS 17, Insurance Contracts'

In May 2017, the IASB issued IFRS 17 Insurance Contracts with an effective date for accounting periods beginning on or after 1 January 2021. This standard replaces IFRS 4 Insurance Contracts and establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that relevant information is provided in a way that faithfully represents those contracts. The impact of this new

standard on the Company is currently being assessed however it is expected to be substantial.

IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'
On 8 December 2016 the IASB issued IFRIC Interpretation 22 which addresses how to determine the date of the transaction for the purpose of determining the spot exchange rate used to translate the asset, expense or income (or part of it) on initial recognition that relates to, and is recognised on the derecognition of, a non-monetary prepayment asset or a non-monetary deferred income liability. This Interpretation is effective for accounting periods beginning on or after 1 January 2018.

IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments'

On 7 June 2017 the IASB issued IFRIC Interpretation 23 which addresses the accounting for tax when there are uncertainties over the tax treatment. It may be unclear how tax law applies to a particular transaction or circumstance, or whether a taxation authority will accept a company's tax treatment. IAS 12 Income Taxes specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. IFRIC 23 provides requirements that add to the requirements in IAS 12 by specifying how to reflect the effects of uncertainty in accounting for income taxes. It is effective for accounting periods beginning on or after 1 January 2019.

1. 3 Critical accounting judgements and key sources of estimation uncertainty
The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The table below provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be different to estimates.

Critical accounting judgement	Nature of judgement	Note
Product classification	Assessment of the significance of insurance risk passed	(c)

Significant accounting estimates	Note
Estimation of unpaid insurance claim reserves & expenses	(a)
Estimation of premium income	(b)
Fair value of Level 3 financial investments	(d)
Intangible assets – recognition and impairment	(e)
Recognition of deferred tax provisions	(f)
Retirement benefit obligations – recognition	(g)

(a) Insurance contract liabilities
The most significant estimate made in the financial statements relates to unpaid insurance claim reserves and related loss adjustment expenses of the Company.

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

The Company applies an actuarial-led reserving process, based on an actuarial best estimate plus an explicit management margin, which reflects the risk premium relating to the uncertainty of the actual level of claims incurred. Using an actuarial-led reserving process enhances the judgement about the profile of risk over the coverage period applied to certain classes of business. Consequently, changes in the estimate of claims should be considered in conjunction with the impact on earned premium.

Although it is possible that claims could develop and exceed the reserves carried, there is a reasonable chance of release of reserves from one year to the next. The estimated provision for the total level of claims incurred changes as more information becomes known about the actual losses for which the initial provisions were set up. The change in claims costs for prior period insurance claims represents the claims development of earlier reported years incurred in the current accounting period.

Details of the Company's outstanding claims reserves and claims development are given in note 10.

(b) Insurance contract premium
Gross written premium is recognised on insurance contracts incepting during the financial year and includes an estimate of the total premium expected to be received under each contract. Adjustments to estimates from previous years are included in the reported premium.

With over supply of capital, particularly in the reinsurance market, clients have increasingly requested multi-year placements of their reinsurance programme. A number of contracts include cancellation clauses which can be enforced by the client. Judgement is therefore required to be applied in calculating the estimated total premium at the inception of these contracts.

The Company has recognised estimated premium income (EPI) for the current year and a negative adjustment for prior years totalling $693.8 million and $12.5 million respectively (2016: $523.9 million and a positive adjustment of $5.3 million).

1. Summary of significant accounting policies and critical accounting judgements and estimates continued

1. 3 Critical accounting judgements and key sources of estimation uncertainty continued

The calculation of EPI is inherently subjective and attained through a combination of underwriters' best estimates at a policy level and actuarial techniques at a portfolio level, based on observable historical trends. These estimates are reviewed on a quarterly basis by underwriters and independently assessed by the actuarial and finance teams.

If the estimation of EPI had been 10% lower than management's estimates at 31 December 2017, the

Company's result on underwriting activities would decrease by $6.5 million (2016: $8.2 million) and net assets would decrease by $6.0 million (2016: $7.4 million).

The estimation of earned premium uses judgement about the profile of risk over the coverage period of reinsurance contracts. Premium is recognised as earned over the policy contract period. The earned element is calculated separately for each contract on a basis where the premium is apportioned over the period of risk. Some classes of business may be exposed to a seasonal pattern to the incidence of claims. Where this is the case, the earnings profile of the related premium is aligned.

(c) Product classification
Insurance contracts are defined as those containing significant insurance risk if, and only if, an insurance event could cause the insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract.

Contracts entered into by the Company with reinsurers under which the Company is compensated for losses on contracts issued by the Company and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts underwritten by the Company under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts.

The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Any contracts not considered to be insurance contracts under IFRS 4 are classified as financial instruments in accordance with IAS 39.

Based on the current assessment, all of the products underwritten by the Company are insurance contracts within the scope of IFRS 4, 'Insurance contracts'. Certain risk transfer contracts held by the Company, for example catastrophe linked instruments, do not meet the definition of an insurance contract and are therefore accounted for as financial instruments in accordance with IAS 39.

(d) Financial assets and financial liabilities
Depending on the methods and assumptions used (for example, in the fair valuation of Level 2 and Level 3 financial assets), the fair valuation of financial assets and financial liabilities can be subject to estimation uncertainty. Details of these methods and assumptions are described in note 9(e).

(e) Intangible assets
Intangible assets are recognised on internally developed computer software which relates to costs directly attributable to the development of an IT platform in MS Frontier Reinsurance Limited which was acquired during the 2016 financial year by the Company (note 3).

The assumptions made by management on initial recognition and valuation of intangible assets, together with the performance of impairment tests, are subject to estimation uncertainty. The results of the impairment test may result in the value of the intangible being impaired in the current period. Note 12 provides further details on the Company's intangible assets.

(f) Tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. The wide range of international business relationships and the long-term nature and complexity of existing contractual agreements could necessitate future adjustments to tax income and expense already recorded. The Company establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the Company and the responsible tax authority.

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. Note 6 provides further details on the Company's tax balances.

(g) Retirement benefit obligations
The Company operates a defined benefit scheme in Zurich. The amounts included in these financial statements are sensitive to changes in the assumptions used to derive the value of the scheme assets and liabilities. Note 13 provides further details on the Company's retirement benefit obligations.

1.4 Significant accounting policies
(a) Insurance contracts liabilities
Claims paid are defined as those claims transactions settled up to the reporting date including external claims settlement expenses allocated to those transactions.

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

The unpaid claims reserves also include, where necessary, a reserve for unexpired risks where, at the reporting date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premium provision.

(b) Reinsurance recoveries
The benefits to which the Company is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Where there is objective evidence that a reinsurance asset is impaired, the Company reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the statement of profit or loss.

(c) Insurance contracts premium
Gross written premium comprise premium on insurance contracts incepting during the financial year together with adjustments to premium written in previous accounting periods. Premium is disclosed before the deduction of brokerage and taxes or duties levied on them.

The proportion of gross written premium, gross of commission or acquisition costs payable, attributable to periods after the reporting date is deferred as a provision for unearned premium. The change in this provision is taken to profit or loss in order that revenue is recognised over the period of the risk.

Premium is recognised as earned over the policy contract period. The earned element is calculated separately for each contract on a basis where the premium is apportioned over the period of the risk. Some classes of business such as US hurricane and West Pacific Typhoon may be exposed to a seasonal pattern to the incidence of claims. Where this is the case, the earnings profile of the related premium is aligned.

(d) Reinsurance premium ceded
Reinsurance premium ceded comprise premium on reinsurance arrangements bought which incept during the financial year, together with adjustments to premiums ceded in previous accounting years. The proportion of reinsurance premium ceded attributable to periods after the reporting date is deferred as reinsurers' share of unearned premium. Reinsurance premium ceded is earned over the policy contract period in accordance with the terms of the reinsurance contract.

(e) Acquisition costs
Acquisition costs comprise brokerage, ceding commissions and Federal Excise Tax (FET) taxes incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premium they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting year and are impaired where they are no longer considered to be recoverable out of future margins in the related revenues.

(f) Financial assets
The Company classifies its financial investments at fair value through profit or loss (FVPL). Management determines the classification of its financial assets at initial recognition. This classification requires all fair value changes to be recognised immediately within the investment return line in the statement of profit or loss. Within the FVPL category, fixed income securities, equity securities, property funds and certain derivatives are classified as 'trading' as the Company buys with the intention to resell.

The Company has an investment in unlisted equities which are treated as available-for-sale and are measured at fair value, unless their fair value cannot be reliably measured, in which case they would be valued at cost less impairment.

Changes in the fair value of the available-for-sale investments are recognized in other comprehensive income in the year in which they arise except for impairments which are recognised in profit or loss. They are tested for impairment annually, or when events or changes in circumstances indicate that impairment might have occurred. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the statement of profit or loss as gains and losses from investment securities.

All other assets at FVPL are classified as 'other than trading' within the FVPL category as they are managed and their performance is evaluated on a FVPL basis.

Purchases and sales of investments are recognised on the trade date, which is the date the Company commits to purchase or sell the assets. These are initially recognised at fair value, and are subsequently re-measured at fair value. Transaction costs are recognised directly in the statement of profit or loss when incurred. Changes in the fair value of investments are included in the statement of profit or loss in the year in which they arise. The uncertainty around valuation is discussed further in note 9(g).

(g) Derivative financial instruments
Derivative financial instruments primarily include currency swaps, interest rate futures, catastrophe linked instruments and other financial instruments that derive their value mainly from underlying interest rates, foreign exchange rates or catastrophe risk. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. They are subsequently measured at fair value, with their fair values obtained from quoted market prices or, where these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. Changes in the fair value of derivative instruments are recognised immediately in the statement of profit or loss.

Embedded derivatives with risks and characteristics which are not closely related to the host contract, and where the combined instrument is not measured at fair value with changes in fair value recognised in the statement of profit or loss, are separated from the host contract and measured at fair value.

(h) Intangible assets
Costs directly attributable to internally developed computer software are capitalised and recognised as intangible assets by the Company.

Costs are recognised as intangible assets where they can be identified separately and measured reliably and it is probable that they will be recovered by directly related future economic benefits. Intangible assets are reviewed for impairment losses at each reporting date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. These intangible assets are carried at cost less accumulated amortisation and impairment losses. Amortisation is recognised in line with the consumption of the benefits based on the estimated useful economic life of the assets, which is estimated to be between 3 and 15 years, and is charged to other operating expenses in the statement of profit or loss.

(i) Tax
Income tax expense represents the sum of the current tax and deferred tax.

The current tax is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years or that are never taxable or deductible. The

Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the substantively enacted tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the statement of profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also charged or credited to other comprehensive income or equity, respectively.

(j) Employee benefits
i. Retirement Benefit Plan
The Company operates a defined contribution scheme in Bermuda and Labuan. Its Zurich pension scheme is classified as a defined benefit scheme in accordance with IAS 19.

Pension contributions to the defined contribution plan are charged to the statement of profit or loss when due.

The defined benefit obligation and associated pension costs are calculated annually by independent actuaries using the projected unit credit method. This method sees each period of service as giving rise to an additional unit of benefit entitlement, and measures each unit separately to build up the final liability. The cost of providing these benefits is charged to the statement of profit or loss to spread the pension cost over the service lives of employees. Remeasurements of defined benefit plans comprise actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions, the return on plan assets (excluding net interest) and the effect of the asset ceiling (if any) and are recognised in the year during which they arise.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the fair value of plan assets less the present value of the defined benefit obligation at the reporting date, together with adjustments for restrictions on the recognition of a defined benefit asset due to an asset ceiling. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discounted rates set on the basis of the yield of high quality debt instruments (AA rated or equivalent) issued by blue chip companies, with maturities consistent with those of the defined benefit obligations. The fair value of the plan assets reflects the benefits that accrue under the insurance policy taken out to meet its obligations.

ii. Other benefits
Other employee incentive schemes and long-term service awards, including the Capital Builder Plan and sabbatical leave, are recognised when they accrue to employees. A provision is made for the estimated liability for long-service leave as a result of services rendered by employees up to the reporting date.

(k) Foreign currency translation
The Company presents its financial statements in US dollars as the majority of the Company's net assets, liabilities and income are in US dollars. There are also revenue streams in sterling, euro, and various other currencies. The Company conducts business in a range of economic environments, although these are primarily the United States of America, the United Kingdom, and continental Europe. The Company's functional currency is the US dollar.

Transactions denominated in foreign currencies are translated using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the rates of exchange at the reporting date. Non-monetary assets and liabilities are translated at the rate prevailing in the year in which the asset or liability first arose, or where such items are revalued, at the latest valuation date. Exchange differences are recognised within other operating expenses.

The results and financial position of the Zurich operation whose functional currency is the euro are translated into US dollars as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the reporting date;
- Income and expenses for each statement of profit or loss presented are translated at the exchange rates at the date of each transaction, or a practical approximation to these rates; and
- All resulting exchange differences are recognised in other comprehensive income.

Details of the principal exchange rates used are included in note 7(a).

(l) Other accounting policies
i. Investment return
Dividends and any related tax credits are recognised as income on the date that the related listed investments are marked ex-dividend. Other investment income and interest receivable, expenses and interest payable are recognised on an accruals basis.

ii. Property and equipment
Property and equipment are stated at historical cost less accumulated depreciation and provision for impairment where appropriate. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. Depreciation is calculated on the straight line method to write down the cost of such assets to their residual values over their estimated useful lives as follows:

Computer equipment per annum	33%
Furniture, fixtures and leasehold improvements per annum	20%

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstance indicate that the carrying value may be impaired. If any such condition exists, the recoverable amount of the asset is estimated in order to determine the extent of impairment and the difference is charged to the statement of profit or loss.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recorded in the statement of profit or loss. Repairs and renewals are charged to the statement of profit or loss when the expenditure is incurred.

iii. Loans and receivables
Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss when there is evidence that the asset is impaired. These are reversed when the triggering event that caused the impairment is reversed.

iv. Finance costs
Finance costs comprise commissions charged for the utilisation of letters of credit. These costs are charged to the statement of profit or loss as finance costs as incurred. Fees paid for the arrangement of letter of credit facilities are charged to finance costs over the life of the facility.

v. Dividend distribution
Final dividend distribution to the Company's shareholder is recognised as a liability in the Company's financial statements in the year in which the dividends are approved by the Company's shareholder.

vi. Leases
Rentals payable under operating leases (after taking into account incentives received from the lessor) are charged to the statement of profit or loss on a straight line basis over the period of the lease, which is representative of the time pattern of the Company's benefit.

vii. Other payables
Other payables are initially recognised at fair value and subsequently measured at amortised cost. They represent liabilities to pay for goods or services that have been received or supplied in the normal course of business, invoiced by the supplier before the year end, but for which payment has not yet been made.

2. Capital
The capital structure of the Company comprises issued capital, reserves, and retained earnings as disclosed in the statement of changes in equity.

Other reserves presented in the 2016 financial Statement have been reclassified to conform to the 2017 financial statement presentation.

During the current and prior financial years, the Company complied with all externally imposed capital requirements to which it is subject. The Company is domiciled in Switzerland and supervised by the Swiss Financial Market Authority (FINMA).

FINMA supervision is composed of various qualitative assessments, governance requirements and minimum solvency levels. The European Commission recognised the Swiss insurance supervision system as equivalent to the Solvency II Directive. This decision entered into force in October 2015. The Company provides regulatory solvency reporting to FINMA under the rules of the Swiss Solvency Test (SST). The SST is based on an economic view and required capital is derived from an internal capital model.

The Company's SST model had a temporary approval from FINMA until 31 December 2015, which was extended in 2016, 2017 and 2018.

For the year ended 31 December 2017, The Company calculated a SST ratio of 212% (unaudited). The minimum ratio for the SST is set at 100%. The Company is expected to exceed the minimum ratios for the year ending 31 December 2018.

For trading purposes, The Company believes that it is necessary to hold at least US$1.0 billion (unaudited) of capital, which is currently in excess of the minimum required by FINMA.

3. Merger and acquisitions
Acquisition of subsidiaries
On 31 December 2016, as part of a reorganisation within the Parent, MS Amlin Plc sold 100% of its interest in the issued share capital and voting rights of MS Frontier Reinsurance Limited ("MSFR") to the Company, in exchange for a share in the Company immediately before a legal merger was effected between MSFR and the Company.

Acquisition accounting
The Company applied its accounting policy to use merger accounting for transactions involving businesses under common control. Therefore, no goodwill was recognised on acquisition of MSFR. Consequently a merger reserve was created on the difference between the fair value of consideration and carrying value of net assets acquired after deduction of retained earnings and reserves acquired. This forms part of 2016's Retained Earnings. The results of MSFR and its subsidiary have been included in the Company's results from the date of acquisition 31 December 2016.

Acquired net assets and consideration
As part of the business combination under common control above, net assets were acquired at their IFRS carrying values after alignment of accounting policies. These are set out in the table below.

	2016 MSFR $m
Assets	
Cash and cash equivalents	1,197.0
Financial investments	1.4
Reinsurance assets	10.9
Deferred tax assets	–
Deferred acquisition costs	9.0
Other assets	80.1
Total assets	**1,298.4**
Liabilities	
Insurance liabilities	147.9
Deferred tax liabilities	–
Other liabilities	15.5
Total liabilities	163.4
Net assets	1,135.0
Retained earnings and reserves acquired	590.4
Merger reserve arising on acquisition	58.2
Fair value of consideration	486.4

4. Net investment return

	2017 $'000	2016 $'000
Investment income		
– dividend income	**17,640**	18,394
– interest income	**9,602**	8,032
– cash and cash equivalents interest income	**1,571**	692
	28,813	27,118
Net realised gains/(losses) on assets held for trading		
– equity securities	**59,366**	8,827
– debt securities	**70,644**	11,105
– property funds	**(10)**	(6,427)
– derivative instruments	**(36,927)**	(31,289)
– derivative instruments relating to the Company's contracts with Tramline Re Ltd and Tramline Re II Ltd	**(16,500)**	(21,992)
on assets classified as other than trading		
– participation in investment pools	**4,044**	225
	80,617	(39,551)
Net unrealised gains/(losses) on assets held for trading		
– equity securities	**35,715**	7,297
– debt securities	**(48,186)**	9,873
– property funds	**13,339**	11,016
– derivative instruments	**420**	9,856
on assets classified as other than trading		
– participation in investment pools	**884**	(199)
	2,172	37,843
	111,602	25,410

Note: Included within debt securities held for trading are realised gains and unrealised losses of $27.1 million and $32.7 million respectively, relating to the investment in the funds managed by Leadenhall Capital Partners LLP (2016: $3.4 million realised losses and $3.1 million unrealised gains).

5. Expenses

a) Other operating expenses

	Note	2017 $'000	2016 $'000
Administrative expenses		**113,837**	88,976
Foreign exchange (gains)/losses		**(6,272)**	18,992
		107,565	107,968

b) Employee benefit expenses

The aggregate payroll costs incurred by the Company are analysed as follows:

	Note	2017 $'000	2016 $'000
Wages and salaries		**29,841**	19,740
Employee incentive and related social security costs		**12,602**	8,796
Equity settled share options and awards granted to Directors and employees		**-**	888
Pension costs	13	**2,948**	2,723
Other		**4,135**	2,905
		49,426	35,052

c) Cash-settled share-based payment schemes

Capital Builder Plan

The Company rewards senior underwriters through payments under the Capital Builder Plan (the Plan) if they achieve performance below the target loss ratio for their class(es) of business or business area over the five-year period of each award under the Plan. Under the scheme rules, the Company has the option to settle the awarded bonus in the shares of the Company or as a cash payment. As Company shares are no longer available to employees settlement is now cash payment only. The last year of award under the Plan was 2014 and no new awards are anticipated.

Provision for payments of an award under the Plan is calculated every year where actual profits exceed the target profit on a cumulative basis over the performance period to date under the Plan. The rate of accrual for each five-year performance period is determined at the start of the period, reflecting the share of the excess return payable and committed under the terms of the Plan.

Under this approach, the services received and the related liability are recognised as the services are rendered, in that the liability at any point in time for the Plan reflects the level of actual performance by underwriters in relation to the target.

The carrying amount of the liability under the Plan at 31 December 2017 is $0.7 million (2016: $0.9 million) and is recorded in other payables.

d) Finance costs

	2017 $'000	2016 $'000
Letter of credit costs	**1,898**	2,067

6. Tax

The corporation tax rate for profits earned in Bermuda is currently nil% (2016: nil%). The combined corporate tax rate which is applicable to profits arising for the Zurich operation only, of Swiss cantonal (13.3%) and federal taxes (7.8%), is rounded to 21.2% (2016: 21.2%). The tax credit in the Income Statement of $4.8 million (2016: charge of $8.6 million) is a combination of deferred tax movements and irrecoverable withholding tax, with any difference being attributed to foreign exchange on translation to USD.

	2017 $'000	2016 $'000
(Loss)/profit before tax	**(246,538)**	54,733
Expected tax charge/(credit) at 21.2%	**(52,143)**	11,576
Non-taxable income/(loss) Bermuda and MSF Branch	**37,206**	(18,488)
Non-recoverable withholding tax (Bermuda Branch)	**842**	2,009
Current year tax losses for which no DTA (federal tax) was recognized	**687**	3,310
Current year tax losses for which no DTA (cantonal tax) was recognized	**5,061**	5,631
Prior year adjustment	**60**	4,968
Unrecognised DTA on GAAP difference	**559**	794
Other including FX	**2,905**	(1,169)
Total tax (credit)/charge	**(4,823)**	8,632

The table below reflects the deferred tax movements during the current and prior year:

	2017 $'000	2016 $'000
Beginning balance	**(9,797)**	(2,940)
Prior year charges	**0**	(4,574)
Current year deferred tax charges	**5,728**	(1,994)
Deferred taxes charged to OCI	**88**	(356)
Currency revaluation	**(995)**	67
Year end deferred tax liability	**(4,976)**	(9,797)

In 2017, the Company incurred $0.8m (2016 $2.1 million) of non-recoverable withholding taxes on investment income.

A current tax liability of $0.2 million (2016: $1.0 million) exists in respect of the Swiss branch of MSFR. The account is in the process of being closed with the Swiss tax authorities as from 1 January 2017 onwards, the MSFR results are taxed within the MS Amlin AG tax return.

The deferred tax liability of $5.0 million (2016: $9.8 million) reflects temporary timing differences which may crystalize in the future. Deferred tax has been provided for at the expected local tax rate for the period when the temporary timing differences are expected to reverse.

The table below reflects the deferred tax positions at 31.December 2017.

	2017	2016
	$'000	$'000
Deferred Tax Assets		
Tax losses (Swiss CO) – losses carried forward	**2,475**	-
Claims Provision-IBNR-Margin	**3,623**	2,306
Retirement Benefit Scheme	**97**	11
Other Reserves (IAS 19)	**1,636**	1,354
Revaluation of FX adjustment	**177**	155
Deferred Tax Liabilities		
Deferred Acquisition Cost	**(12,524)**	(10,884)
RI Share of Claims Provision-IBNR-Margin	**(94)**	(413)
Investments	**(163)**	(2,215)
Margins and collaterals debtors	**(53)**	(5)
Other FX on adjustments	**(150)**	(106)
Year end deferred tax liability	**(4,976)**	(9,797)

7. Foreign Exchange

a) Principal exchange rates

The principal exchange rates used in translating foreign currency assets, liabilities, income and expenditure in the production of these financial statements were:

	Average rate		Year end rate	
	2017	2016	2017	2016
Sterling	**0.78**	0.74	**0.74**	0.81
Euro	**0.89**	0.90	**0.83**	0.95
New Zealand dollar	**1.41**	1.44	**1.41**	1.44
Australian dollar	**1.30**	1.35	**1.32**	1.38
Japanese yen	**112.14**	108.89	**112.66**	116.84

b) Foreign exchange risk

The exposures to translation, revaluation and asset liability currency matching risk combine to form the Company's overall exposure to foreign exchange risk. The Company holds asset and liability balances in major base currencies of US dollars, Sterling, Euro, New Zealand dollars, and Japanese yen.

Translation risk

Foreign exchange translation risk arises when business is written in non-functional currencies. These transactions are translated into the functional currencies at the prevailing spot rate at the inception date of the premium. Consequently, there is exposure to currency movements between the inception date and the date the premium is received. Claims incurred in non-functional currencies are recorded at the prevailing spot rate on the date of the loss event (or suitable equivalent) and then translated back from the functional currency at the time a claim is to be settled; therefore the Company is exposed to exchange rate risk between the date the claim is made and the date of settlement.

If the EUR/USD exchange rate were to improve by 10% at 31 December 2017, this would result in an additional exchange gain of $6.1 million (2016: $6.6 million) recognised in other comprehensive income. The same exchange rate deterioration would result in an additional $6.1 million (2016: $6.6 million) exchange loss through other comprehensive income.

Asset liability matching by currency risk

Underwriting assets are primarily held in the base currencies of US dollar, Sterling, Euros, New Zealand dollars, and Japanese yen, which represent the majority of the Company's liabilities by currency, thus limiting the underwriting asset liability matching currency risk.

The table below presents the Company's assets and liabilities by currency. The amounts are stated in the US dollar equivalent of the local currency, in order that the amounts can be reconciled to the Company's statement of financial position. The local currency amounts have been converted into US dollar using the exchange rates as disclosed in note 7(a).

	31 December 2017					
Currency risk	$ $'000	Sterling $'000	Euro $'000	NZ$ $'000	JPY $'000	Total $'000
Total assets	**3,355,828**	**555,278**	**1,090,116**	**59,286**	**56,242**	**5,116,750**
Total liabilities	**1,990,895**	**528,890**	**788,142**	**15,052**	**25,982**	**3,348,961**
Net assets	**1,364,933**	**26,388**	**301,974**	**44,234**	**30,260**	**1,767,789**

	31 December 2016					
Currency risk	$ $'000	Sterling $'000	Euro $'000	NZ$ $'000	JPY $'000	Total $'000
Total assets	3,681,911	414,092	874,279	69,230	40,001	5,079,513
Total liabilities	1,398,645	399,679	670,191	35,860	21,715	2,526,090
Net assets	2,283,266	14,413	204,088	33,370	18,286	2,553,423

If the base currencies were to improve/deteriorate by 10%, the movement in the monetary net underwriting assets and liabilities of the Company would result in the following (losses)/gains in the Company's profit or loss at 31 December 2017:

	31 December 2017	
Currency	10% Deterioration $'000	10% Improvement $'000
Sterling	**(9,081)**	**11,099**
Euro	**(33,322)**	**40,727**
New Zealand dollar	**(2,276)**	**2,782**
Japanese Yen	**(3,362)**	**4,109**
	(48,041)	**58,717**

Further foreign exchange risk arises until non-USD profits or losses are converted into the functional currencies. The Company aims to match assets and liabilities by major currency, which includes the option to actively sell underwriting profits earned in non-functional currencies as they crystallise.

8. Dividend

On 26 April 2017, the Directors recommended for approval by the shareholders at the Annual General Meeting held on the same date the payment of a $554.0 million dividend. The dividend payment was approved by the shareholders and was paid 8 May 2017.

On 25 April 2016, the Directors recommended for approval by the shareholders at the Annual General Meeting held on the same date the payment of a $173.9 million dividend. The dividend payment was approved by the shareholders and was paid in two shared payments of $172.4 million on 28 April 2016 and $1.5 million on 29 April 2016.

9. Financial assets and liabilities

a) Other loans and receivables

	Note	2017 $'000	2016 $'000
Other receivables		**17,435**	24,121
Prepayments and other accrued income		**6,684**	2,663
Intercompany debtors	16(a)	**434**	14
		24,553	26,798

Other receivables comprise principally of amounts receivable for financial investments sold. Other loans and receivables are expected to be current.

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

b) Related party loan

On 29 November 2017, the Company advanced $230.0 million to the Parent as a one year, fixed term loan. The loan facility expires on 28 November 2018; interest is payable at 0.8% above the US$ London Interbank Offered Rate. At 31 December 2017, $230.5 million loan and interest remains outstanding.

In February 2014, the Company agreed to refinance and extend the $161.0 million unsecured loan facility that was originally entered into in November 2011 with the Parent. This loan and interest of $163.3 million were repaid on 8 May 2017.

c) Other payables

	Note	2017 $'000	2016 $'000
Accrued expenses and deferred income		**9,945**	18,669
Other liabilities		**1,532**	6,155
Social security and other tax payables		**2,261**	1,577
Intercompany creditors	16(a)	**9,642**	24,121
		23,380	50,522

The current and non-current portions are expected to be as follows:

	2017 $'000	2016 $'000
Current portion	**23,380**	48,936
Non-current portion	**-**	1,586
	23,380	50,522

Other liabilities comprise principally of amounts payable to investment managers for financial investments purchased and other sundry payables.

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

d) Borrowings
The Company has three LOC facilities of US$450.0 million (2016: US$250.0 million), US$85.0 million (2016: US$60 million) and NZ$75.0 million (2016: NZ$75.0 million). The US$450.0 million facility is secured by a registered charge over a portfolio of assets managed by Fiera Capital with BNP Paribas as custodian. The US$85.0 million facility is secured by time deposits held at Barclays Bank. The NZ$75.0 million LOC is secured by time deposits held at National Australia Bank. As at 31 December 2017, US$370.3 million of LOC were issued (2016: US$254.3 million). The total value of restricted assets as at 31 December 2017 was US$445.7 million (2016: US$302.0 million).

e) Fair value hierarchy
i) Fair value methodology
For financial instruments carried at fair value the Company has categorised the measurement basis into a fair value hierarchy as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide readily and regularly available quoted prices.

Level 2 – Inputs to a valuation model other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – Inputs to a valuation model for the asset that are not based on observable market data (unobservable inputs) and are significant to the overall fair value measurement. Unobservable inputs may have been used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date (or market information for the inputs to any valuation models). As such, unobservable inputs reflect the assumptions which it considers market participants would use in pricing the asset.

There were no changes to the valuation techniques during the year.

Shares and other variable yield securities
Listed equities traded on a primary exchange in an active market are classified as Level 1.

Debt and other fixed income securities
The fair value is based upon quotes from pricing services where available. These pricing services derive prices based on an average of quotes provided by brokers. Where multiple quotes are not available, the fair value is based upon evaluated pricing services, which typically use proprietary cash flow models and incorporate observable market inputs, such as credit spreads, benchmark quotes, and other trade data. If such services do not provide coverage of the asset, then fair value is determined manually using indicative broker quotes, which are corroborated by recent market transactions in similar or identical assets.

Where there is an active market for these assets and their fair value is the unadjusted quoted market price, these are classified as Level 1. This is typically the case for government bonds. Level 1 also includes bond funds, where fair value is based upon quoted market prices. Where the market is inactive or the price is adjusted, but significant market observable inputs have been used by the pricing sources, then these are considered to be Level 2. This is typically the case for government agency debt, corporate debt, mortgage and asset backed securities, and catastrophe bonds.

Property funds
The Company's property fund portfolios are valued using the most recent net asset value provided by the fund managers. The net asset values, which may be a quarter in arrears, are determined by the fund managers using proprietary cash flow models. In such cases, adjustments may be made to bring the net asset value to a more current valuation. The inputs into that valuation, such as discount rates, are primarily unobservable and, as such, these assets are classified as Level 3. Where an investment is made into a new property fund the transaction price is considered to be the fair value if it is the most recent price available.

Participation in investment pools
These are units held in money market funds and the value is based upon unadjusted, quoted and executable prices provided by the fund manager and these are classified as Level 1.

Derivatives
Listed derivative contracts, such as futures, that are actively traded are valued using quoted prices from the relevant exchange and are classified as Level 1. Over-the-counter currency options are valued by the counterparty using quantitative models with multiple market inputs such as foreign exchange rate volatility. The market inputs are observable and the valuation can be validated through external sources. These are classified as Level 2. The Company's risk transfer contracts with Tramline Re II Ltd have been classified as a derivative instrument. The valuation of these instruments is based on forecast cash flow models which contain principally unobservable market inputs, and as such are classified as Level 3.

ii) Net financial investments by fair value grouping

	Fair Value Hierarchy				Fair Value Hierarchy			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total 2017 $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total 2016 $'000
Assets								
Financial assets held for trading at fair value through profit or loss								
Shares and other variable yield securities	**432,258**	**-**	**85**	**432,343**	378,972	–	–	378,972
Debt and other fixed income securities	**366,582**	**1,647,778**	**-**	**2,014,360**	1,519,487	104,333	–	1,623,820
Property funds	**-**	**-**	**371,939**	**371,939**	–	–	279,408	279,408
Derivative instruments	**869**	**699**	**2,745**	**4,313**	–	11,582	1,310	12,892
Other financial assets at fair value through profit or loss								
Participation in investment pools	**109,548**	**9,619**	**-**	**119,167**	117,731	–	–	117,731
Deposits with credit institutions	**98,645**	**-**	**-**	**98,645**	56,944	–	–	56,944
Available for sale financial assets								
Unlisted equities	**-**	**-**	**4,891**	**4,891**	-	-	-	
Other Loans and receivables	**-**		**24,773**	**24,773**	-	-	26,798	26,798
Cash and cash equivalent	**326,149**			**326,149**	1,291,133			1,291,133
Related Party Loan	**230,457**			**230,457**	163,237			163,237
Total financial assets	**1,564,508**	**1,658,096**	**404,433**	**3,627,037**	3,527,504	115,915	307,516	3,950,935
Liabilities								
Financial liabilities held for trading at fair value through profit or loss								
Derivative instruments	**(2,147)**	**(3,083)**	**-**	**(5,231)**	–	(495)	–	(495)
Financial liabilities at amortised cost Other payables	**-**	**-**	**(23,380)**	**(23,380)**	-	-	(50,522)	(50,522)
Total liabilities	**(2,147)**	**(3,083)**	**(23,380)**	**(28,610)**	–	(495)	(50,522)	(51,017)
Net financial assets	**1,562,361**	**1,655,013**	**381,053**	**3,598,426**	3,527,504	115,420	256,994	3,899,918

iii) Transfers between levels of the fair value hierarchy
The Company's policy is to recognise transfers into and transfers out of fair value hierarchy levels at the end of the relevant reporting period during which the transfers are deemed to have occurred
During 2017 the level 3 investments for Shares and other variable yield securities have increased by $85'000, of which $49'000 are reclassified from level 1 investments.

The table below analyses the movements in assets and liabilities classified as Level 3 investments during 2017.

	Total 2017 $'000
At 1 January 2017	**280,718**
Total net gains/(losses) recognised in investment return in the statement of profit or loss	**(3,152)**
Purchases	**69,445**
Settlements	**17,936**
Transfers into Level 3	**49**
Foreign exchange gains	**14,774**
Gains/(losses) through OCI on AFS	**(109)**
At 31 December 2017	**379,661**
Total net unrealised gains or losses for the year recognised in investment return in profit or loss for assets and liabilities held at the end of the reporting year	**(13,759)**

	Total 2016 $'000
At 1 January 2016	251,769
Total net gains/(losses) recognised in investment return in profit or loss	(12,240)
Purchases	24,110
Settlements	22,242
Foreign exchange losses	(5,163)
At 31 December 2016	280,718
Total net unrealised gains or losses for the year recognised in investment return in profit or loss for assets and liabilities held at the end of the reporting year	(20,872)

f) Financial risk management
The following section describes the Company's investment risk management from a quantitative and qualitative perspective.

The Company has two main categories of assets:

- Underwriting assets – premium received and held to meet future insurance claims.
- Capital assets – capital required by the regulators to support the underwriting business plus working capital and surplus funds. These assets do not have specific current liabilities attached to them.

Investment governance
The Company manages its investments in accordance with the investment governance framework set by the Company's Board of Directors. This framework determines investment governance and the investment risk tolerance. It is reviewed on a regular basis to ensure that the Board of Directors' fiduciary and regulatory responsibilities are being met. Day to day management of the investments is delegated to members of the Company's executive who are advised by the Parent's Chief Investment Officer.

Risk tolerance
Investment risk tolerance is set by the Supervisory Board. This is based on a Value at Risk.

Investment risk is monitored using a market-recognised third-party model and is independently reviewed by the Parent's risk function. Risk reports are regularly reviewed by the Supervisory Board.

Strategic asset allocation
The strategic asset allocation is set according to the Company's risk tolerance and liabilities. The strategic asset allocation for capital assets is set by using a Value at Risk (VaR[1]) model, to determine the optimum asset allocation for the current risk tolerance which ensures that appropriate solvency levels are maintained. The expected timescale for future cash flows in each currency is calculated; the average of these forms the basis of the asset liability duration management. Tactical ranges around these strategic asset allocations provide flexibility to ensure that an appropriate risk/reward balance is maintained in changing investment markets.

Note:
1.VaR is statistical measure, which calculates the possible loss over a year, in normal market conditions. As VaR estimates are based on historical market data this should not be viewed as an absolute gauge of the level of risk to the investments.

Investment management
Investments are run on a multi-asset, multi-manager basis. Exposure to the asset classes is achieved using physical holdings of the asset class or derivative instruments, on a segregated or pooled basis. Manager selection is based on a range of criteria that leads to the expectation that they will add value to the funds over the medium to long-term. The managers have discretion to manage the funds on a day-to-day basis within investment guidelines or prospectuses applicable to their funds that ensure that they comply with the investment governance frameworks. The managers' performance, compliance and risk are monitored on an ongoing basis.

The industry and geographical allocation of the company's investments were as follows:

	31 December 2017		31 December 2016	
Industry	Global equities %	Total %	Global equities %	Total %
Oil & gas	-	-	2.3	2.3
Basic materials	-	-	4.3	4.3
Industrials	**18.2**	**18.2**	12.7	12.7
Consumer goods & services	**19.7**	**19.7**	17.1	17.1
Healthcare	**23.6**	**23.6**	24.0	24.0
Miscellaneous	-	-	2.0	2.0
Government guaranteed	-	-	-	-
Telecommunications	**10.2**	**10.2**	10.0	10.0
Utilities	**2.1**	**2.1**	1.2	1.2
Financials	**16.0**	**16.0**	16.9	16.9
Technology	**10.2**	**10.2**	9.5	9.5
	100	**100**	100	100

Note: The table above excludes government bonds and pooled vehicles.

	31 December 2017			31 December 2016		
Region	Bonds %	Global equities %	Total %	Bonds %	Global equities %	Total %
United Kingdom	**15.1**	**7.1**	**13.7**	4.9	8.5	5.7
United States and Canada	**58.3**	**56.3**	**58.0**	71.9	57.4	68.9
Europe (excluding United Kingdom)	**25.7**	**17.2**	**24.2**	13.7	16.6	14.2
Far East	**0.9**	**19.4**	**4.1**	6.6	11.9	7.7
Emerging markets	-	-	-	2.9	5.6	3.5
	100	**100**	**100**	100	100	100

Note: The table above includes all bond and equity investments, but excludes pooled vehicles.

g) Market risk
Market risk concerns the risks associated with valuation, interest rates, liquidity and counterparty credit. Foreign exchange risk is described in note 7(b).

The Company has an established control framework with respect to fair value measurement which ensures the valuation of financial assets and financial liabilities meets the requirements of IFRS. As part of this process the Company reviews the valuation policies of its custodians along with the evidence provided by the custodians to support fair value measurement. The prices are also reconciled to the fund managers' records to check for reasonableness.

As an additional level of governance over pricing, the Company validates the prices provided by pricing vendor sources against information obtained from Bloomberg where available. A review of stale prices was also conducted at 31 December 2017; though the impact of stale prices on the Company's investment valuation is considered immaterial. Further details on the fair value measurement of financial assets and financial liabilities are included in note 9(e).

The valuation of investments in shares and other variable yield securities are sensitive to equity risk. The impact on profit before tax of a 1% improvement/deterioration in the total market value of shares and other variable yield securities would be a $4.3 million gain/loss (2016: $3.8 million). Sensitivities in relation to other risks are considered in the following pages and note 7(b).

Interest rate risk
Investors' expectations for interest rates will impact bond yields[1]. Therefore the value of the Company's bond holdings is subject to fluctuation as bond yields rise and fall. If yields fall the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration[2]. The greater the duration of a security, the greater its possible price volatility. Typically, the longer the maturity of a bond, the greater its duration. The maturity bands of the Company's bond holdings as at 31 December 2017 are shown below.

	31 December 2017 $'000	31 December 2017 $'000
Less than 1 year	**220,206**	374,907
1-2 years	**147,880**	148,478
	368,086	523,385

Note: The table above excludes pooled investments of $1,646.5 million (2016: $1,101.9 million).

The duration of underwriting assets is set with reference to the duration of the underlying liabilities. It should be noted that the liabilities are not currently discounted and therefore their value is not impacted by interest rate movements. Cash is raised, or the duration of the portfolio reduced, if it is believed that yields may rise and therefore capital values will fall.

The average durations of the bond and cash portfolios for the underwriting assets and associated insurance liabilities as at 31 December 2017 were as follows:

	31 December 2017		31 December 2016	
Underwriting assets	Assets Years	Liabilities Years	Assets Years	Liabilities Years
Sterling	**(0.1)**	**5.7**	0.9	5.7
US dollar	**(0.3)**	**2.5**	0.1	2.5
Euro	**(0.2)**	**5.0**	(0.5)	5.0

Note: The table above includes pooled vehicles. US dollars include New Zealand dollars, Australian dollars and Japanese yen.

The asset durations above are calculated by the custodian and are checked against those reported by the fund managers. Liabilities durations are calculated by the actuarial team.

An indication of the potential sensitivity of the bond and cash funds to changes in yield is shown below.

Bonds – 31 December 2017	Underwriting	Corporate	Net (reduction)/ increase in value
Shift in yield (basis points)			$m
100	0.2	0.6	6.5
75	0.2	0.4	4.9
50	0.1	0.3	3.3
25	0.1	0.1	1.6
-25	(0.1)	(0.1)	(1.6)
-50	(0.1)	(0.3)	(3.3)
-75	(0.2)	(0.4)	(4.9)
-100	(0.2)	(0.6)	(6.5)

Note:
1. The yield is the rate of return paid if a security is held to maturity. The calculation is based on the coupon rate, length of time to maturity and the market price. It assumes coupon interest paid over the life of the security is reinvested at the same rate.
2. The duration is the weighted average maturity of the security's cash flows, where the present values of the cash flows serve as the weights.

Liquidity risk
It is important that the Company can pay its obligations as they fall due. Levels of cash are therefore managed on a daily basis and buffers of liquid assets are held in excess of the immediate requirements. This is to reduce the risk of being forced sellers of any of the Company's assets, which may result in realising prices below fair value, especially in periods of below normal investment market liquidity.

Liquidity, in the event of a major disaster, is tested regularly using internal cash flow forecasts and realistic disaster scenarios. If a major insurance event occurs the investment strategy is reviewed to ensure that sufficient liquidity is also available in the assets.

The following table indicates the expected timing of cash flows:

	Expected cash flows (undiscounted)				
31 December 2017	0-1 yr	1-3 yrs	3-5 yrs	>5 yrs	Carrying amount
Insurance liabilities	$'000	$'000	$'000	$'000	$'000
Outstanding claims	1,192,216	401,617	212,229	364,316	**2,170,379**
Less reinsurers' share of outstanding claims	(155,146)	(57,165)	(36,841)	(2,056)	**(251,207)**
Total	**1,037,071**	**344,452**	**175,388**	**362,260**	**1,919,172**

	Expected cash flows (undiscounted)				
31 December 2016	0-1 yr	1-3 yrs	3-5 yrs	>5 yrs	Carrying amount
Insurance liabilities	$'000	$'000	$'000	$'000	$'000
Outstanding claims	696,869	386,129	164,735	186,229	1,433,962
Less reinsurers' share of outstanding claims	(23,7 35)	(973)	(1,674)	-	(26,382)
Total	673,134	385,156	163,061	186,229	1,407,580

A breakdown of the current and non-current portions of the other non-derivative financial liabilities is available in note 9(c).

Credit risk
Credit risk is the risk that the Company becomes exposed to a loss if a specific counterparty fails to perform its contractual obligations in a timely manner, impacting the Company's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. The Company's credit risk is mitigated by the collateral received from counterparties, details of which are given in note 9(i). The Company is exposed to credit risk in its investment portfolio and with its premium and reinsurance receivables. The table below shows the breakdown at 31 December 2017 of the exposure of the bond portfolio, liquidity funds and reinsurance receivables by credit quality[1].

31 December 2017	Debt Securities[1] $'000	%	Liquidity funds $'000	%	Insurance and reinsurance receivables[2] $'000	%	Reinsurers' share of outstanding claims $'000	%
AAA	**368,086**	**18.3**	**-**	**-**	**-**	**-**	**44,270**	**17.6**
AA	**-**	**-**	**99,383**	**45.6**	**-**	**-**	**833**	**0.3**
A	**-**	**-**	**3,041**	**1.4**	**-**	**-**	**6,351**	**2.5**
BBB	**-**	**-**	**-**	**-**	**-**	**-**	**624**	**0.2**
Other	**1,648,485**	**81.7**	**115,388**	**53.0**	**1,027,224**	**100.0**	**199,129**	**79.4**
	2,016,571	**100.0**	**217,812**	**100.0**	**1,027,224**	**100.0**	**251,207**	**100.0**

31 December 2016	Debt Securities[1] $'000	%	Liquidity funds $'000	%	Insurance and reinsurance receivables[2] $'000	%	Reinsurers' share of outstanding claims $'000	%
AAA	523,385	32.3	117,747	9.6	–	–	–	–
AA	564,249	34.7	4,384	0.4	–	–	2,032	7.7
A	334,879	20.6	1,109,559	90.0	–	–	15,294	58.0
BBB	102,822	6.3	–	–	–	–	–	–
Other	99,950	6.1	–	–	901,211	100.0	9,056	34.3
	1,625,285	100.0	1,231,690	100.0	901,211	100.0	26,382	100.0

Note:

1. Credit ratings on debt securities are BNP Paribas composite ratings based on Standard & Poor's, Moody's and Fitch, depending on which agency/agencies rate each bond.
2. Other insurance and reinsurance receivables includes premium receivable from policyholders and intermediaries that are not rated.

i) Insurance and reinsurance

The table includes premium receivables, representing amounts due from policyholders. The quality of these receivables is not graded, but based on historical experience there is limited default risk relating to these amounts. Premium credit risk is managed through a number of controls that include broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance.

Also included are reinsurance receivables which represent the amounts due at 31 December 2017, as well as amounts expected to be recovered on unpaid outstanding claims (including IBNR) in respect of earned risks. These are stated net of provisions for impairment. The credit risk in respect of reinsurance receivables including reinsurers' share of outstanding claims, is primarily managed by review and approval of reinsurance security by the Parent's Reinsurance Security Committee, prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on the Parent's own ratings for each reinsurer and Standard & Poor's ratings. The Company holds collateral from certain reinsurers including those that are non-rated as security against potential default. The details of reinsurance collaterals held and placed with third party trust funds are provided in note 9(i). At 31 December 2017, the Company held collateral of $nil (2016: $3.3 million). The impact on profit before tax of a 1% variation in reinsurance assets would be $2.5 million (2016: $0.3 million). The details of overdue reinsurance assets and insurance receivables are provided in notes 10(a) and 10(e).

ii) Investments

The majority of the Company's derivative transactions with respect to currency forwards are subject to International Swaps and Derivatives Association (ISDA) master netting agreements. Transactions under such agreements meet the criteria for offsetting in the Company's statement of financial position. The Company's listed futures are transacted under Global Principal Clearing agreements and are not subject to offsetting in the statement of financial position. In addition, the Company and its counterparties do not intend to settle on a net basis or to realise the assets and the liabilities simultaneously.

h) Offsetting financial assets and financial liabilities

The disclosure provided in the tables below include derivatives that are set off in the Company's statement of financial position.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

31 December 2017	Gross amounts of recognised financial assets $'000	Gross amounts of recognised financial liabilities set off in the statement of financial position $'000	Net amounts of financial assets presented in the statement of financial position $'000
Derivative instruments held for trading	**356,348**	**(352,035)**	**4,313**

31 December 2016	Gross amounts of recognised financial assets $'000	Gross amounts of recognised financial liabilities set off in the statement of financial position $'000	Net amounts of financial assets presented in the statement of financial position $'000
Derivative instruments held for trading	300,729	(289,147)	11,582

Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements

31 December 2017	Gross amounts	Gross amounts of recognised	Net amounts of financial liabilities

	of recognised financial liabilities $'000	financial assets set off in the statement of financial position $'000	presented in the statement of financial position $'000
Derivative instruments held for trading	357,265	(352,035)	5,230

31 December 2016	Gross amounts of recognised financial liabilities $'000	Gross amounts of recognised financial assets set off in the statement of financial position $'000	Net amounts of financial liabilities presented in the statement of financial position $'000
Derivative instruments held for trading	289,642	(289,147)	495

i) Restricted funds held/placed by the Company
At 31 December 2017, the Company holds restricted funds in the form of letter of credit (LOC) collaterals, initial margin calls on derivative financial instruments, and collateral received from reinsurance counterparties.

Trust Funds
At 31 December 2017, cash and cash equivalents with a fair value of $41.1 million (2016: $40.8 million) have been deposited in trust by the Company for the benefit of U.S. ceding companies. These funds are held in trust by a U.S. based bank.

LOC facilities
At 31 December 2017, $445.7 million (2016: $302.0 million) of assets are restricted for use by the Company. These assets are collateral for the LOC facilities drawn at the end of the year. Details are included in note 9(d).

Derivative margins and collateral
Derivative instruments traded by the Company give rise to collateral being placed with, or received from, external counterparties. At 31 December 2017 included in other receivables is $13.1 million (2016: $9.0 million) margins and collateral pledged in relation to listed futures margins.

Reinsurance collateral received
Collateral of $401.3 million (2016: $420.8 million) is held in third party trust funds by the Parent relating to the 2017 year retrocession programme which jointly protects Syndicate 2001 and the Company.

Collateral held in third party trust funds is not recognised as assets pertaining to the Company but is available for immediate drawdown in the event of a default.

Funds withheld as premium/claim deposits
At 31 December 2017, the Company had net funds of $109.5 million (2016: $55.0 million) placed as claim deposits and net $28.2 million (2016: $25.5 million) premium deposits placed with/receivable from external brokers. In addition a further $101.7 million (2016: $76.1 million) has been placed into pledged accounts to collateralise against losses due to reinsurance cedants.

10. Insurance liabilities and reinsurance assets
a) Net outstanding claims

		2017			2016		
Outstanding claims	Note	Insurance liabilities $'000	Reinsurers' share $'000	Net liabilities $'000	Insurance liabilities $'000	Reinsurers' share $'000	Net liabilities $'000
At 1 January		**1,433,962**	**26,382**	**1,407,580**	1,230,961	32,431	1,198,530
Claims incurred during the current year		**1,434,245**	**273,719**	**1,160,526**	813,953	4,611	809,342
Movements arising from prior year claims		**51,751**	**283**	**51,468**	2,154	(4,478)	6,632
		1,485,996	**274,002**	**1,211,994**	816,107	133	815,974
Acquisition through business combination		**-**	**-**	**-**	100,397	10,057	90,340
Claims paid during the year		**(800,455)**	**(47,524)**	**(752,931)**	(555,289)	(15,747)	(539,542)
Reinsurance to close (RITC) and commutations		**(76,316)**	**(4,509)**	**(71,806)**	(110,718)	–	(110,718)
Exchange adjustments		**127,191**	**2,856**	**124,335**	(47,496)	(492)	(47,004)
At 31 December		**2,170,379**	**251,207**	**1,919,172**	1,433,962	26,382	1,407,580

The Company assesses its reinsurers' share of outstanding claims for impairment on a quarterly basis by reviewing counterparty payment history and credit grades provided by rating agencies. The credit ratings of the Company's reinsurers share of outstanding claims are shown in note 9(g).

b) Claims development

The tables below illustrate the development of the estimates of ultimate cumulative claims for the Company after the end of the underwriting year, illustrating how amounts estimated have changed from the first estimates made. Non-US dollar balances have been converted using 2017 exchange rates to aid comparability.

Underwriting year Gross basis	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000
Current ultimate gross written premium	595,056	729,888	769,296	922,268	1,105,084	1,222,062	1,424,316	1,514,695	1,454,869	1,411,252
Current gross earned premium	595,056	729,888	769,296	922,268	1,104,829	1,220,422	1,403,802	1,423,379	1,304,138	782,697
Estimate of cumulative claims at end of underwriting year	385,081	278,857	427,231	699,537	630,592	678,543	780,606	771,847	890,113	1,322,891
One year later	325,578	268,527	729,055	678,735	538,652	645,858	735,689	804,718	1,029,882	-
Two years later	339,067	268,547	754,272	670,659	525,990	627,952	740,088	833,669	-	-
Three years later	334,647	261,805	738,628	677,008	531,874	619,001	743,317	-	-	-
Four years later	335,192	259,806	747,460	673,075	538,157	634,020	-	-	-	-
Five years later	333,415	258,730	742,803	668,534	550,357	-	-	-	-	-
Six years later	335,164	265,424	758,239	674,976	-	-	-	-	-	-
Seven years later	332,126	264,392	756,095	-	-	-	-	-	-	-
Eight years later	335,634	263,812	-	-	-	-	-	-	-	-
Nine years later	333,050	-	-	-	-	-	-	-	-	-
Cumulative payments	330,346	261,673	737,340	618,919	469,898	542,545	573,534	486,422	366,810	193,948
Estimated balance to pay	2,704	2,139	18,755	56,057	80,459	91,475	169,783	347,247	663,072	1,128,943

Underwriting year Net basis	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	2015 $'000	2016 $'000	2017 $'000
Estimate of cumulative claims										
at end of underwriting year	385,081	278,857	427,231	660,327	609,766	645,730	760,101	760,810	890,076	1,283,900
One year later	325,578	268,527	680,286	641,756	520,956	612,039	715,589	778,000	1,029,882	-
Two years later	339,067	267,441	710,649	630,837	508,746	594,579	720,674	804,646	-	-
Three years later	334,647	260,801	695,323	638,873	513,419	586,886	723,929	-	-	-
Four years later	335,192	258,821	705,311	636,805	520,113	602,484	-	-	-	-
Five years later	333,415	257,808	698,609	632,263	532,781	-	-	-	-	-
Six years later	335,164	264,803	714,053	638,705	-	-	-	-	-	-
Seven years later	332,126	263,771	712,005	-	-	-	-	-	-	-
Eight years later	335,634	263,191	-	-	-	-	-	-	-	-
Nine years later	333,050	-	-	-	-	-	-	-	-	-
Cumulative payments	330,346	261,052	693,202	582,649	452,304	510,922	550,721	465,158	366,440	156,908
Estimated balance to pay	2,704	2,139	18,803	56,056	80,477	91,562	173,208	339,488	663,442	1,126,992
										Total $'000
Net claims reserve (strengthen)/release	2,584	580	2,048	(6,442)	(12,668)	(15,598)	(3,255)	(26,647)	(139,806)	(199,204)

The Company's net aggregate reserve deterioration from prior years amounted to $51.5 million (2016: deterioration $6.6 million).

This differs from the $199.2 million deterioration in reserves stated in the claims development table above because the table is on an underwriting year basis and the deteriorations in this narrative are on an annually accounted basis.

10. Insurance liabilities and reinsurance assets continued
c) Net unearned premium
Unearned premiums are further analysed between earned and ceded premium below:

		2017			2016		
Unearned premium	Note	Insurance liabilities $'000	Reinsurers' share $'000	Net liabilities $'000	Insurance liabilities $'000	Reinsurers' share $'000	Net liabilities $'000
At 1 January		**869,500**	**3,377**	**866,123**	738,237	5,325	732,912
Acquisition through business combination		**-**	**-**	**-**	47,531	837	46,694
Premiums written during the year		**1,328,337**	**130,712**	**1,197,625**	1,362,589	83,653	1,278,936
Premiums earned during the year		**(1,349,524)**	**(131,664)**	**(1,217,860)**	(1,276,525)	(86,530)	(1,189,995)
Exchange adjustments		**45,743**	**902**	**44,841**	(2,332)	92	(2,424)
At 31 December		**894,056**	**3,327**	**890,729**	869,500	3,377	866,123

d) Deferred acquisition costs
The reconciliation of opening and closing deferred acquisition costs is as follows:

	2017 $'000	2016 $'000
At 1 January	**189,853**	155,783
Expenses for the acquisition of insurance contracts deferred during the year	**252,070**	261,271
Amortisation	**(249,695)**	(234,663)
Other movements	**10,171**	7,462
At 31 December	**202,399**	189,853

e) Insurance and reinsurance receivables

	31 December 2017 $'000	31 December 2016 $'000
Receivables arising from reinsurance contracts	**1,027,224**	901,211

Receivables arising from reinsurance contracts are comprised principally of amounts recoverable from reinsurers in respect of paid claims and premium receivables on inward reinsurance business, including reinstatement premium. The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

The Company assesses its insurance and reinsurance receivables for impairment on a quarterly basis by reviewing counterparty payment history and for circumstances which may give rise to a dispute or default, alongside credit grades provided by rating agencies. The credit ratings of the Company's insurance and reinsurance receivables are shown in note 9(g).

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

The ageing analysis of insurance and reinsurance receivables overdue, before impairment provision, is as follows:

	31 December 2017 $'000	31 December 2016 $'000
Not overdue or less than 3 months	**999,499**	882,737
3 to 6 months	**7,900**	3,886
6 to 9 months	**12,085**	10,732
Greater than 9 months	**7,740**	3,765
	1,027,224	901,120

Movements on the Company's provision for impairment of receivables arising from contract holders and agents are as follows:

	2017 $'000	2016 $'000
At 1 January	**91**	94
Increase in the provision	**–**	–
Release of unused provision	**(91)**	(3)
At 31 December	**-**	91

f) Insurance and reinsurance payables

	2017 $'000	2016 $'000
Insurance and reinsurance payables	**242,419**	153,605

Insurance and reinsurance payables are expected to be settled currently.

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

Insurance payables are comprised principally of premium payable for reinsurance and claims payable.

g) Underwriting risk
The Company accepts underwriting risk in a range of classes of business. The bias of the Company's portfolio is towards short-tail property and accident risk but liability coverage is also underwritten. The Company operates across regional and national boundaries to provide a global service.

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

A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed by the Board of Directors. The plan is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. Progress against this plan is monitored during the year.

Apart from the international motor liability portfolio, which has unlimited liability, all policies have a per loss limit which caps the size of any individual claim. The Company operates line guides that determine the maximum liability per policy that can be written for each class (on a gross or net of facultative reinsurance basis) by each underwriter. These limits can be exceeded in exceptional circumstances with the approval of senior management.

The Company is also exposed to catastrophe losses which may impact many risks in a single event. Reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in note 10(h).

The insurance policies underwritten by the Company are reviewed on an individual risk, or contract, basis and through review of portfolio performance. Claims arising are reserved upon notification. Each quarter the entire portfolio of business is subject to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. Whilst a detailed and disciplined exercise is carried out to provide for claims notified, it is possible that known claims could develop and exceed the reserves carried.

Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims and there is a possibility that claims may arise which, in aggregate, exceed the reserve provision established. This is partly mitigated by the reserving policy adopted by the Company which is to carry reserves in excess of mean actuarial best estimate.

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew policies and thus reducing income.

The Company is exposed to the impact of large catastrophe events such as windstorms, earthquakes or terrorist incidents. Exposure to such events is controlled and measured through loss modelling. It is possible that a catastrophe event could exceed the maximum expected event loss. This is particularly the case for the property proportion of the loss exposure where models are used to calculate a damage factor representing the amount of damage expected to exposed aggregate insured values from a particular scenario. Errors, or incorrect assumptions, in the damage factor calculation can result in incurred catastrophe event claims higher, or lower, than predicted due to unforeseen circumstances, inadequacies in data, or shortcomings in the models used.

As explained in note 10(h), reinsurance is purchased to protect against the impact of any individual or series of severe catastrophes. However, the price and availability of such cover is variable and the amount of loss retained by the Company may therefore also increase or reduce. The Company will alter its insurance and reinsurance exposures to take account of the change in reinsurance availability and cost, capital levels and profitability in order to remain within the risk appetite guidelines.

Section A below describes the reinsurance portfolio written by the Company and the associated risks of such business. Section B summaries the business written within each group of reinsurance portfolios.

A. (i) Property
Catastrophe reinsurance protects insurance companies against losses, such as windstorm or earthquake which may impact more than one risk written by the client. The catastrophe excess of loss portfolio is a key part of the reinsurance risk written by the Company.

These programmes are placed on a layered or excess of loss basis. Territorial exposures, from a number of programmes, are carefully recorded and analysed through loss simulations and realistic disaster scenarios but represent significant loss exposure to natural or man-made catastrophes.

Aggregate excess of loss programmes are also written providing protection in response to multiple loss events.

Per risk property reinsurance is written on an excess of loss basis but covers loss or damage to any single risk within the reinsured's portfolio. This portfolio protects insureds against large individual property losses, and will also be affected by large catastrophe losses.

Proportional property reinsurance covers a proportionate share of a reinsured's portfolio of business subject to payment of commission and/or profit commission. Proportional property business is normally written with an occurrence limit.

The Company's portfolio of property reinsurance business is written with the aim of achieving territorial diversification. However, as experienced in 2017, a single or series of severe catastrophes is likely to result in a loss to the portfolio prior to retrocessional reinsurance. For each operating division, overall catastrophe loss limits are applied in relation to specific scenarios as an allocation of total Company tolerances.

A. (ii) Casualty
The US casualty reinsurance account provides cover for reinsureds in respect of legal liability arising from insureds' activities and actions or for incidents occurring on insureds' properties. The portfolio is written on both an excess of loss and proportional basis but most underlying policies are on a claims notified basis (responding to all claims made during a defined period). The portfolio includes specialist general casualty, professional indemnity, medical malpractice and errors and omissions cover. Small amounts of directors' and officers' liability and automobile liability are also written.

US Workers Compensation Act /casualty clash excess of loss business may be impacted by large catastrophic events such as an earthquake.

International liability reinsurance business is mainly general third party liability protecting companies against significant public or products liability claims, written on a proportional or excess of loss basis. The liability account also includes some professional liability reinsurance.

The construction and engineering portfolio provides liability and property reinsurance cover for construction projects which may be of several years' duration.

A. (iii) Motor
Motor reinsurance is written on a proportional and excess of loss basis. This portfolio is at risk from increases in frequency or severity of motor accident claims and bodily injury or third party property claims payments which may take several years to settle. Unlimited and limited motor business is written. Whilst the original premium and the investment income generated are expected to be more than sufficient to meet such claims, there is no guarantee that this will be the case, particularly due to inflation or superimposed inflation resulting from changes to court awards. The aim is to diversify the portfolio across several territories in order to reduce the impact of a single legal jurisdiction revising its claims policy.

A. (iv) Personal accident
Personal accident reinsurance is written on a worldwide basis. Such business could be impacted by a single or series of accidents due to high value insured individuals or from a multiple death and injury event, such as an air crash or natural catastrophe.

A. (v) Marine
The Company's portfolio of marine excess of loss reinsurance protects insurers against losses to their direct portfolios of business on a worldwide basis. This will include offshore energy business, specie and other static risks written in reinsured companies' marine portfolios. The marine account, in particular, is exposed to catastrophe losses as well as large individual risk losses.

A. (vi) Special risks
The portfolio includes short-term trade credit and contingency business as well as trade credit reinsurance which protect reinsureds against the non-payment of monies or goods or services due from trade partners locally or overseas. Mortgage indemnity business is also written in the special risk account.

h) Reinsurance and other risk mitigation arrangements
The Company purchases excess of loss and proportional reinsurances to protect its portfolio from severe frequency or size of losses. The structure of these programmes and type of protection sought will vary from year to year depending on the availability and price of cover.

The main retrocessional excess of loss programme is purchased to protect the property excess of loss reinsurance portfolio written by the Company against catastrophe events. Aggregate protection has been renewed to provide lower level cover in the event of multiple losses to the portfolio.

In December 2014, the Company acquired coverage for US hurricane, US earthquake and European windstorm perils of up to $200.0 million from Tramline Re II Ltd, which in turn placed a second catastrophe bond into the capital markets. This transaction replaces the coverage provided by Tramline Re Ltd (which expired on 31 December 2014) and provides the Company with fully

collateralised protection over a four year period from 1 January 2015. This is in addition to the protection the Company purchases through the traditional reinsurance marketplace. The bond provides significant protection against remote but substantial catastrophe events for the Company.

There is no guarantee that reinsurance coverage will be available to meet all potential loss circumstances as, for very severe catastrophe losses, it is possible that the full extent of the cover bought is eroded. Any loss amount which exceeds the programme would be retained by the Company.

Many parts of the programme have limited reinstatements and therefore the recoveries from subsequent major losses are limited. It is possible for the reinsurance programme to be exhausted by a series of losses in one annual period and it may not be possible to purchase additional reinsurance for an acceptable price. This would result in the Company bearing higher losses from further events occurring.

B. Business written

The table below summarises the gross written premium across the reinsurance portfolios of the Company.
The following points apply to the table:

- The Bermuda branch gross written premiums do not include business ceded by the Parent's subsidiaries discussed in note 18.
- Gross written premium is stated gross of acquisition costs and excludes adjustments in respect of prior

	Bermuda	Zurich	Bermuda	Zurich
	Gross written premium	Gross written premium	Gross written premium	Gross written premium
	$million	€million	$million	€million
	31 December 2017		31 December 2016	
(i) Property – reinsurance				
Catastrophe reinsurance (per programme)	**269**	**38**	228	48
Per risk property reinsurance (per programme)	**41**	**22**	44	24
Proportional reinsurance	**142**	**72**	167	90
Engineering	**-**	**61**	-	62
(ii) Casualty – reinsurance				
Casualty	**85**	**50**	138	66
Liability	**-**	**-**	-	-
(iii) Motor – reinsurance				
Motor	**-**	**108**	-	143
(vi) Personal accident – reinsurance				
Accident and Health	**-**	**-**	3	-
Personal accident	**-**	**-**	-	11
(v) Marine – reinsurance				
Marine (per programme)	**3**	**12**	2	11
(vi) Special risks – reinsurance				
Special risks	**15**	**9**	114	11
Surety	**112**	**8**	-	3
Total treaty reinsurance	**666**	**380**	696	469

Realistic Disaster Scenario (RDS) analysis
The Company has a defined event risk tolerance which determines the maximum net loss that the Company intends to limit its exposure with respect to major modelled catastrophe event scenarios. Currently, the largest of these is $310m for US windstorm.

These scenarios are extraordinary events – with an occurrence probability of less than 1 in 50 years estimated for the natural peril or elemental losses. The risk tolerance policy recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include changes in rates of exchange, non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements which increase original claims levels.

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

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

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate.

Furthermore there could also be a loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote, but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

i) Claims reserving and IBNR

Insurance liabilities and reinsurance assets: Calculation of incurred but not reported (IBNR) and claims development

The Company adopts a rigorous process in the calculation of an adequate provision for insurance claim liabilities. The overriding aim is to establish reserves which are expected to be at least adequate and that there is consistency from year to year. Therefore, the reserves are set at a level above the mean actuarial 'best estimate' position. However, there is a risk that, due to unforeseen circumstances, the reserves carried are not sufficient to meet insurance claim liabilities reported in future years on policy periods which have expired.

Process and methodology

The reserving process commences with the proper recording and reporting of claims information which consists of booked premiums and paid and notified or outstanding claims. Information on claims is received directly from brokers and policyholders. Claims records are maintained for each policy and class. For outstanding claims, a case reserve is established based on the views of underwriting management and claims managers. This reserve is expected to be sufficient to meet the claim payment when it is finally determined. For some classes of business, particularly liability business, settlement may be several years after the initial notification of the claim.

To assist with the process of determining the reserves triangulation statistics for each class are produced which show the historical development of booked premium, as well as paid and incurred losses, for each underwriting year. In all cases, the different potential development of each class of business is fully recognised. The development period varies by class, by method of acceptance and is also determined by the deductible of each policy written. For casualty business, the policy form will determine whether claims can be made on a claims made (as advised) or as a losses occurring (determined by date of loss) basis. This has a significant impact on the reporting period in which claims can be notified.

IBNR

To establish a provision for IBNR claims, the actuarial teams use their experience and knowledge of the classes of business to estimate the potential future development of the incurred claims for each class for every underwriting year. This is known as the "best estimate". In setting the IBNR provision, estimates are made for the ultimate premium and ultimate gross claims value for each underwriting year. Allowance is then made for anticipated reinsurance recoveries to reach a net claim position. Reinsurance recoveries are calculated for outstanding and IBNR claims, sometimes through the use of historical recovery rates or statistical projections, and provisions are made as appropriate for bad debt or possible disputes. The component of ultimate IBNR provision estimates and reinsurance recoveries that relates to future events occurring to the existing portfolio is removed in order to reflect generally accepted accounting practice.

Meetings are initially held in which underwriters and actuaries discuss the initial proposed estimates and revise them if it is felt necessary. At the next round of meetings, local management discuss reserving issues with the actuaries and underwriters and challenges the proposed estimates. At this meeting, local management proposes the 'margin' for risk to be added to the best estimate, assisted by diagnostics produced from the internal model. The margin is proposed on a net of reinsurance basis only. Further meetings are then held at which further review and challenge is provided, led by the Parent's risk function.

Areas of uncertainty

The reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes, or from inadequate provision for IBNR claims. The impact on profit before tax of a 1% improvement/deterioration in the total net claims reserves would be $19.2 million gain/loss (2016: $14.1 million).

Property catastrophe claims, such as earthquake or hurricane losses can take several months, or years, to develop as adjusters visit damaged property and agree claim valuations. Until all the claims are settled it requires an analysis of the area damaged, contracts exposed and the use of models to simulate the losses against the portfolio of exposure in order to arrive at an estimate of the ultimate loss to the Company. There is uncertainty over the adequacy of information and modelling of major

losses for a period that can range from several months to a number of years after a catastrophe loss. Account should also be taken of factors which may influence the size of claims such as increased inflation or a change in law.

The long tail liability classes represent the most difficult classes to project because often claims are notified and settled several years after the expiry of the policy concerned. This is particularly the case for liability business written on a losses occurring basis. The use of historical development data is fundamental to reserving these classes.

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

11. Property and equipment

2017	Note	Motor Vehicles $'000	Computer equipment $'000	Fixtures, fittings and leasehold improvements $'000	Total $'000
Cost					
At 1 January 2017		341	6,575	6,471	13,387
Additions		-	584	2,113	2,697
Disposals		(189)	(401)	(148)	(738)
Foreign exchange gains		-	78	373	451
At 31 December 2017		**152**	**6,836**	**8,809**	**15,797**
Accumulated depreciation					
At 1 January 2017		163	5,557	4,575	10,295
Charge for the year		(49)	248	421	620
Foreign exchange losses		-	74	257	331
At 31 December 2017		**114**	**5,879**	**5,253**	**11,246**
Net book value					
At 31 December 2017		**38**	**957**	**3,556**	**4,551**
At 1 January 2017		178	1,018	1,896	3,092

2016	Note	Motor Vehicles $'000	Computer equipment $'000	Fixtures, fittings and leasehold improvements $'000	Total $'000
Cost					
At 1 January 2016		–	5,337	3,898	9,235
Acquisitions through business combination		341	1,107	730	2,178
Additions		–	149	1,964	2,113
Foreign exchange gains		–	(18)	(121)	(139)
At 31 December 2016		**341**	**6,575**	**6,471**	**13,387**
Accumulated depreciation					
At 1 January 2016		–	4,949	3,364	8,313
Acquisitions through business combination		163	390	639	1,192
Charge for the year		–	236	635	871
Foreign exchange losses		–	(18)	(63)	(81)
At 31 December 2016		**163**	**5,557**	**4,575**	**10,295**
Net book value					
At 31 December 2016		**178**	**1,018**	**1,896**	**3,092**
At 1 January 2016		–	388	534	922

12. Intangible Assets

2017	Note	Computer software $m
Cost		
At 1 January 2017		4,663
Acquisition through business combination		-
Additions		390
Amortisation		(4,052)
Net book value at 31 December 2017		**1,001**

2016	Note	Computer software $m
Cost		
At 1 January 2016		-
Acquisition through business combination		4,663
Amortisation		0
Net book value at 31 December 2016		4,663

Computer software represents the costs that the Company has incurred on internally developed computer software which relates to costs directly attributable to the development of an IT platform in MS Frontier Reinsurance Limited which was acquired during the 2016 financial year by the Company.

13. Retirement benefit obligations
The Company operates defined contribution schemes in Bermuda and Labuan. In Zurich, the Company operates a pension scheme which meets the classification of a defined benefit scheme under IAS 19.

a) Defined benefit scheme
In accordance with Swiss legislation, the Company provides for occupational pension insurance, the regulations of which, as may be amended from time to time, apply to both the Company and the employee. The pension scheme's Management Board (equally consisting of employer as well as employee representatives) retains overall responsibility for deciding on such fundamental aspects as the level and structure of plan benefits.

The insured salary is based on the agreed compensation exclusive of bonus and/or other benefits granted by the Company. The employees pay a portion of the premiums determined in the applicable pension fund regulations.

Net defined benefit liability

The movement in the net defined benefit liability is as follows:

2017	Present value of obligation $'000	Fair value of scheme assets $'000	Net defined benefit liability $'000
At 1 January 2017	(24,810)	17,576	(7,234)
Interest (expense)/income	(189)	140	(49)
Current service cost	(1,828)	-	(1,828)
Administration expenses	41	(41)	-
(Charged)/credited to statement of profit or loss	**(1,976)**	**99**	**(1,877)**
Re-measurements:			
Actuarial gains and losses arising from :			
– changes in financial assumptions	(713)	-	(713)
– other actuarial gains/(losses)	290	-	290
Return on plan assets, excluding amounts included in interest (expense)/income	-	6	6
Credited to statement of other comprehensive income	**(423)**	**6**	**(417)**
Exchange differences	(1,069)	821	(248)
Participant contributions	(663)	663	-
Benefits paid	(85)	85	-
Employer contributions	-	1,416	1,416
At 31 December 2017	**(29,026)**	**20,666**	**(8,360)**

2016	Present value of obligation $'000	Fair value of scheme assets $'000	Net defined benefit liability $'000
At 1 January 2016	(25,754)	17,341	(8,413)
Interest (expense)/income	(192)	136	(56)
Current service cost	(1,866)	–	(1,866)
Past service cost	–	–	–
Administration expenses	41	(41)	–
(Charged)/credited to statement of profit or loss	(2,017)	95	(1,922)
Re-measurements:			
Actuarial gains and losses arising from :			
– changes in financial assumptions	153	–	153
– other actuarial gains/(losses)	570	–	570
Return on plan assets, excluding amounts included in interest (expense)/income	–	18	18
Charged to statement of other comprehensive income	1,665	18	1,683
Exchange differences	367	(335)	32
Participant contributions	(667)	667	–
Benefits paid	1,596	(1,596)	–
Employer contributions	–	1,386	1,386
At 31 December 2016	(24,810)	17,576	(7,234)

13. Retirement benefit obligations continued
a) Defined benefit scheme continued

Funding arrangements
Funding arrangements are in accordance with the related insurance arrangements and regulations described above.

Risks to which the Company is exposed through its defined benefit schemes
The defined benefit scheme exposes the Company to the following risks:

- Changes in bond yields – The discount rate used in calculating the present value of the defined benefit obligation is based upon the yield of high quality debt instruments issued by blue chip companies, with maturities consistent with those of the defined benefit obligations. A decrease in bond yields is likely to increase the defined benefit obligation.
- Inflation risk – The defined benefit obligation is linked to inflation and therefore should the inflation rate increase, there will be an increase in the plan obligation.
- Life expectancy – The present value of the defined benefit obligation is calculated based on certain mortality assumptions as stated below. An increase in the life expectancy of the plan participants will result in an increase in the defined benefit obligation.
- Risk of insurer default – if the insurer is unable to meet its obligations, or if the contract is cancelled by either party; it will fall to the Company to provide the benefits to members in accordance with the relevant scheme assets.

Significant actuarial assumptions
The significant actuarial assumptions used as at 31 December 2017 and 2016 were:

	2017 % pa	2016 % pa
Discount rate for pension benefits	**0.7**	0.8
Price inflation – Consumer Price Index (CPI)	**1.25**	1.0
Expected salary increases – general	**2.3**	2.0

The mortality assumptions used in the 31 December 2017 and 2016 valuation included the following life expectancies:

	2017		2016	
Life expectancy (years) at age 60 for a member currently:	Male	Female	Male	Female
Aged 60	**27.5**	**29.8**	27.2	29.5
Aged 45	**29.0**	**31.1**	28.7	30.9

Significant actuarial assumptions – sensitivities
The table below shows the impact on the defined benefit obligation that a change in certain key assumptions would have:

Assumption change	2017 $'000	2016 $'000
(Increase)/decrease in discount rate by 0.25%	**(1.1)/1.0**	0.7/(0.8)
(Decrease)/increase in inflation rate by 0.25%	**(0.4)/0.2**	(0.1)/0.1
(Decrease)/increase in life expectancy by one year	**(0.5)/0.5**	(0.4)/(0.4)

The above sensitivities of the significant actuarial assumptions have been calculated by changing each assumption in turn whilst all remaining assumptions are held constant. The limitation of this sensitivity analysis is that in practice assumptions may be correlated and therefore are unlikely to change in isolation.

Analysis of scheme assets

MS Amlin AG pension plan is a fully insured plan. Therefore, the underlying assets are insurance contracts with the interest credit being guaranteed. From an asset allocation perspective, insurance contracts would be treated as "Other" and relates to investments in pooled vehicles (2016: pooled vehicles).

Maturity profile of the defined benefit obligations
The weighted average duration of the defined benefit obligation is 18.0 years (2016: 18.0 years).

The expected maturity analysis of the undiscounted pension benefits is as follows:

	2017 $'000	2016 $'000
Less than a year	**1,170**	1,036
Between 1-2 years	**1,178**	1,044
Between 2-5 years	**3,626**	3,276
Over 5 years	**58,633**	53,000
Total	**64,607**	58,356

Expected contributions
The effect of the defined benefit plans on the Company's future cash flows as a result of the expected contributions for the year ending 31 December 2018 are as follows:

	2018 $'000	2017 $'000
Contributions from the Company	**1,363**	1,248
Contributions from plan participants	**630**	583
Total contributions to the schemes	**1,993**	1,831

b) Stakeholder defined contribution schemes
The defined contribution scheme operated by the Company is a stakeholder arrangement. The total contributions to the schemes for the year ended 31 December 2017 are $1.1 million (2016: $0.8 million).

The total Pension Costs (as shown in Note 5) of $2.9 million consists of the expenses of $1.8 million for the defined benefit plan and $1.1 million contribution from the above stated amounts.

14. Capital and reserves
Share capital

	2017 Number	2017 $'000	2016 Number	2016 $'000
Authorised and issued share capital				
At 1 January issued shares of CHF1 each.	**10,000,001**	**10,204**	10,000,000	10,204
Ordinary shares of 1 CHF each issues in the year	**–**	**–**	1	–
At 31 December issued shares of CHF1 each.	**10,000,001**	**10,204**	10,000,001	10,204

The Company issued 1 share on 31 December 2016 for $486.4 million for the acquisition of MSFR.

15. Commitments
a) Capital commitments
The Company has made a commitment to subscribe to property funds at 31 December 2017 of $10.1 million (2016: $14.5 million) in the normal course of investment activities.

b) Operating lease commitments
The Company leases various offices, as a lessee, under operating lease agreements. The Company is required to give notice for the termination of these agreements. The lease expenditure charged to the statement of profit or loss during the year is $0.7 million (2016: $0.8 million).

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017 $000	2016 $000
No later than 1 year	**2,870**	2,843
Later than 1 year and no later than 5 years	**5,354**	8,672
	8,224	11,515

16. Related party transactions
The following transactions were carried out with related parties:

a) Transactions and balances with related parties
i) Funds managed by Leadenhall Capital Partners LLP
Leadenhall Capital Partners LLP (LCP), a partnership controlled by MS Amlin Corporate Services Ltd. which is a related MS Amlin plc Group company, is an investment fund manager wholly focused on managing insurance linked investment portfolios for institutional investors. The total funds under management at 31 December 2017 were $93.3 million (2016: $99.9 million).

ii) Transactions by the Funds managed by Leadenhall Capital Partners LLP
At 31 December 2017, funds managed by LCP held $0.5 million (2016: $12.8 million) of the catastrophe bonds issued by Tramline Re II Ltd.

Details of the Company's transactions with Tramline Re II Ltd can be found in note 10(h).

The Company participates in fronting arrangements whereby they write inwards reinsurance contracts which are 100% reinsured by Horseshoe Re Limited on behalf of its segregated accounts. Funds managed by LCP have invested within these

segregated accounts. During the year, the Company wrote $nil (2016: $0.1 million) of gross premium and received $nil (2016: $0.1 million) of commission through this arrangement. At 31 December 2017, $0.6million (2016: $0.1 million) was net payable to Horseshoe Re, of which $0.2 million (2016: $1.3 million) was reinsurers' share of insurance liabilities, and $0.8 million (2016: $1.4) was reinsurance payables.

iii) Reinsurance contracts
During 2017 and 2016, there were a number of reinsurance arrangements entered into in the normal course of trade with various subsidiaries of the Parent. The amount of net written premium from these contracts during the year ended 31 December 2017 was $338.9 million (2016: $335.9 million). The Company recorded a loss before tax of $137.5 million (2016: profit before tax of $45.8 million) on these reinsurance contracts.

MS Amlin AG has invested $5m in Viribus Re which is structured as a side car cession of specific MS Amlin Underwriting Limited, Syndicate 2001 reinsurance classes. The Special Purpose Insurer is fully collateralised and the funds are invested in BlackRock Money Market funds.

At 31 December balances included in these financial statements with respect to these reinsurance contracts include:

	2017 $'000	2016 $'000
Insurance receivables	**320,710**	251,266
Outstanding claims	**(478,638)**	(318,096)
Insurance and reinsurance payables	**(184,690)**	(110,024)

From 1 January 2016, the Company has provided protection to Syndicate 2001 for $160.4 million (2016 $160.4 million) for the catastrophe risks.

iv) Other
During the year, the Company was charged $55.7 million (2016: $35.6 million) for services provided by Amlin Corporate Services Limited (ACS). These services were purchased at cost. At 31 December 2017 $5.1 million (2016: $13.7 million) was payable in relation to these services. In December 2017, a number of initial margin calls in relation to derivative positions were triggered. At 31 December 2017, an amount of $4.4 million was payable to the Parent (2016: $10.4 million payable to the Parent).

As discussed in note 9(f), the Company's exposure to asset classes is achieved using physical and derivative instruments. The derivative strategy is managed through collateral and other agreements with the Parent. The collateral and unrealised losses as of 31 December 2017 amounted to $25.1 million (2016: $1.2 million) and $13.1 million (2016: $9.0 million), respectively. The collateral is included in other receivables and the unrealised loss is included in other payables.

As discussed in note 9(b), in November 2017 the Company entered into a fixed term loan facility of $230.0 million with the Parent.

b) Compensation of key management personnel
Key management personnel are those Directors and senior managers responsible for planning and control of the activities of the Company. Key management comprises 6 Executive Directors and employees, 2 Independent Non-Executive Directors and 2 Non-Executive Directors (2016: 5 Executive Directors and employees, and 5 Non-Executive Directors). Compensation during the year to key management personnel amounted to $6.3 million (2016: $7.6 million) all of which is short term employee benefits.

17. Events after the reporting period

No significant events have been identified between the date of the statement of financial position and the date on which the financial statements were authorised.