

# **Equitas Holdings Limited**

# **Annual Report & Financial Statements**

for the year ended 31 March 2016

**Company registration number 3136296**

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## Group strategic report for the year

### Review of the business

The business of Equitas Holdings Limited ("the Company") and its subsidiaries as listed in Note 19 ("the Group") is to run-off the 1992 and prior years' non-life Lloyd's liabilities reinsured in 1996. The liabilities were then transferred from the Names to the Group in 2009. The High Court approved the transfer, under Part VII of the Financial Services and Markets Act 2000, of all the 1992 and prior years' non-life Lloyd's liabilities of the open and closed year Names to Equitas Insurance Limited, a wholly owned subsidiary of Equitas Holdings Limited formed for that purpose. The transfer took effect on 30 June 2009 and means that Names are no longer liable under English law for any future claims by policyholders on their 1992 and prior business. The transfer is recognised in all EEA jurisdictions. In previous years the Group purchased a total of \$7 billion reinsurance cover, over and above the reserves at 31 March 2006, from National Indemnity Company ("National Indemnity"), a member of the Berkshire Hathaway group of insurance companies. A review of the development of the transaction with National Indemnity is set out below.

The Group has continued to pursue its strategy to run-off the liabilities reinsured in 1996 which were transferred from the Names to the Group in 2009.

### The National Indemnity Reinsurance Agreement

#### Overview

There were two phases to the transaction. The first phase involved the purchase of an additional \$5.7 billion of reinsurance cover over and above the existing Equitas reserves at 31 March 2006, less claims payments and reinsurance recoveries received between 1 April 2006 and 31 March 2007. The second phase completed during the year ended 31 March 2010 involved the transfer of Names' obligations to policyholders to a new Group company, Equitas Insurance Limited, and the purchase of additional reinsurance cover of \$1.3 billion from National Indemnity.

#### Current cover position

The additional reinsurance cover available at the year end is set out in the table below:

	2016 \$m	2015 \$m
Additional reinsurance cover available at 1 April 2015/2014	4,965	5,670
Movement in provisions	(235)	(746)
Exchange differences	(23)	41
<b>Additional reinsurance cover available at 31 March 2016/2015</b>	<b>4,707</b>	<b>4,965</b>

The reduction in additional reinsurance cover is less than the movement in reserves of £189 million (translated into US Dollars) shown on page 5 because NICO have reassessed the value

of the syndicate reinsurance recoverable and this increase in value reduces the impact on the cover purchased from NICO.

As at 31 March 2016, \$2,293 million (or 32.8%) (2015: \$2,035 million (or 29.1%)) of the additional \$7.0 billion of reinsurance cover purchased from National Indemnity has been utilised to cover reserve deterioration since 1 April 2006. The cover remaining that is not yet required is not shown in the financial statements.

The level of cover remaining to meet potential liabilities significantly strengthens the Group's financial position. The risk that assets will not be sufficient to meet the liabilities as they fall due has become extremely remote as a result of the reinsurance purchased from National Indemnity.

### **Return Premium**

Following the transaction with National Indemnity in March 2007, Equitas approved an aggregate return premium of £50 million to be paid to the approximately 34,000 Reinsured Names, Lioncover and Centrewrite Limited in accordance with their respective entitlements. This amount was provided for in the financial statements for 2007. At 31 March 2016, 28,108 (2015: 28,103) of those entitled to a return premium have been paid their entitlement. This accounts for £44 million (2015: £44 million) of the total return premium. The balance is payable to the remaining Reinsured Names or their estates on satisfaction by them of outstanding procedural requirements.

At Phase I we explained that any further distribution to Names would depend on requirements for regulatory capital and other constraints. The regulator at the time, the Financial Services Authority, decided that, having regard to such matters, they would not permit a further return premium to be paid at the time of the Part VII transfer. Net assets of £78 million are now held to maintain the capital levels required by regulation and to fund the on-going governance costs of the Group. Under present circumstances, it is likely to be many years before the Group will be in a position to consider any further return premium payments, and it is possible that such payments may never be made.

### **How the run-off is managed**

Resolute Management Services Limited ("RMSL"), a member of the Berkshire Hathaway group, manages the run-off as agent for Equitas Insurance Limited (formerly the Names prior to the Part VII transfer). The costs of running RMSL are met by National Indemnity, for as long as the total of claims paid (net of reinsurance recoveries) by National Indemnity is less than the total cover provided. RMSL is entitled to exercise wide powers to manage the retroceded business and is required to exercise those powers in the interests of the Group and Names.

### **Role of Equitas**

While the reinsurance agreement with National Indemnity provides very significant additional reinsurance cover to Equitas, it does not disturb the existing chain of reinsurance established as part of Lloyd's Reconstruction and Renewal. Since Equitas Insurance Limited remains ultimately responsible for the insurance liabilities, the agreement includes a number of provisions that

allow continued monitoring of the run-off. Mr Heap, as Chief Executive, carries out this monitoring function, reporting to the Board.

## **Protection**

RMSL manages the claims adjusting process. National Indemnity will not be required to provide security for its reinsurance obligations for so long as National Indemnity's insurer financial strength rating, as measured by Standard & Poor's, remains at AA- or higher. If, however, National Indemnity's rating were to drop below this level, it must either provide a letter of credit or establish a trust fund, equal to 102 per cent of its net liabilities under the agreement (provided that this does not exceed the remaining reinsurance cover), plus estimated future operating expenses. If National Indemnity's rating falls below A- then the 102 per cent requirement increases to 125 per cent (provided that this does not exceed the remaining reinsurance cover).

At the date of this report the Standard & Poor's rating for National Indemnity remains very strong at AA+. The Berkshire Hathaway group (of which National Indemnity is a part) had a rating of AA.

Further information about the ratings of National Indemnity and the Berkshire Hathaway group is given on page 11.

The trust fund arrangements in North America and Australia that ring fence assets to match a significant proportion of the liabilities that Equitas reinsures continue, thus providing additional protection to policyholders.

## **Result for the year**

During the year ended 31 March 2016 the Group lost £0.5 million on its investments (2015: £1.7 million profit) while corporate expenses amounted to £1.2 million (2015: £1.3 million). This produced a loss before tax for the year of £1.7 million (2015: £0.4 million profit) and a loss of £1.7 million (2015: £0.4 million profit) after Corporation Tax.

The accumulated surplus remaining in the Group as at 31 March 2016 is £78.5 million (2015: £80.2 million).

Most of the Group's investments were held in a bond portfolio managed by BlackRock Investment Managers (UK) Limited ("BlackRock").

The tables on the next page explain how the retained surplus and claims and reinsurance reserves have moved during the year.

**Profit and loss account**

	<i>£m</i>	<i>£m</i>
<b>Profit and loss account at 1 April 2015</b>		<b>80</b>
Investment return less expenses	-	
Reassessment of:		
Claims	(189)	
Reinsurances	189	
(Loss) for the year before tax		(2)
Corporation Tax		-
<b>Profit and loss account at 31 March 2016</b>		<b>78</b>

A comprehensive actuarial review was conducted at the end of August 2015 which was updated to reflect movements to 31 March 2016. The techniques used are described in note 2 on page 27. The actuarial review of the insurance reserves resulted in increases in the asbestos and pollution categories; in addition reserves were strengthened to reflect the movement in exchange rates for the US Dollar and Australian Dollar during the year.

The liabilities of £4,768 million are shown in the table below and are covered by the reinsurance from National Indemnity.

**Provision for claims outstanding**

	<i>Claims £m</i>	<i>Reinsurance £m</i>	<i>Net £m</i>
<b>Provisions at 1 April 2015</b>	<b>4,901</b>	<b>(4,901)</b>	<b>-</b>
Payments, receipts and accruals	(443)	443	-
Reassessment of liabilities and reinsurances	189	(189)	-
Exchange movements	121	(121)	-
<b>Provisions at 31 March 2016</b>	<b>4,768</b>	<b>(4,768)</b>	<b>-</b>

The provisions do not include any operating expense reserves since operating expenses are met by National Indemnity.

**Performance measurement**

The key measures of the Group's performance are shown in the table below.

<b>Key measure</b>	<b>What does it show?</b>
Additional Reinsurance cover available	The total amount of reinsurance cover remaining less the gross undiscounted claims outstanding. It represents the margin available to cover future reserve deterioration
Surplus	The surplus available to fund the Group expenses in monitoring the run-off and for further return of premium and to provide regulatory capital
Gross undiscounted claims outstanding	The expected total remaining liabilities before any deduction for reinsurance on an undiscounted basis

The Group's key performance measures as defined above for the year to 31 March 2016 are set out in the table below:

	2016	2015
	\$m	\$m
Additional Reinsurance cover remaining	4,707	4,965
	£m	£m
Surplus	78	80
	£m	£m
Gross undiscounted claims outstanding	4,768	4,901

All measures of the reinsurance cover from National Indemnity are expressed in US dollars in accordance with the reinsurance contract. The exchange rates used to calculate the cover are fixed at the rates prevailing on 31 March 2006.

### Principal risks and uncertainties

The principal risk facing the Group has always been the ability to meet the reinsured liabilities (and since 2009 the assumed liabilities) as they fall due in the light of the significant uncertainties as to the accuracy of the provision for claims outstanding shown in the balance sheet. This risk was significantly reduced by the completion of both phases of the reinsurance transaction with National Indemnity, which provided an additional \$7 billion of reinsurance cover above that needed to meet the reserves at 31 March 2006. The principal risk now facing the Group is that liabilities come to exceed the reinsurance cover purchased. There is also the risk that the financial security of National Indemnity deteriorates, though there are provisions in the contract to mitigate such changes which are outlined on page 4 and page 11.

### Conclusion

The two phase transaction with National Indemnity and the transfer of liabilities from the Names have fixed the strategy for the Equitas Group. The transaction with National Indemnity transformed the level of resources available to meet any uncertainties and consequently the Board of Equitas believes the prospect of the failure of Equitas to be extremely remote. The successful transfer of business means that Names are no longer liable under English law, and in all jurisdictions of the EEA, for any future claims by policyholders on their 1992 and prior business.

### By Order of the Board



**JW Heap**  
Chief Executive Officer  
7 June 2016

## Board of Directors

<b>David Shipley</b>	<b>- Chairman</b>
<b>Jeremy Heap</b>	<b>- Chief Executive Officer</b>
<b>Jane Barker</b>	<b>- Non-executive Director</b>
<b>Glenn Brace</b>	<b>- Non-executive Director</b>
<b>Michael Deeny</b>	<b>- Trustees' Nominated Director</b>
<b>Sean McGovern</b>	<b>- Lloyd's Nominated Director</b>
<b>Sir Adam Ridley</b>	<b>- Trustees' Nominated Director</b>
<b>Richard Spooner</b>	<b>- Trustees' Nominated Director</b>



## **Directors' report**

**for the year ended 31 March 2016**

**Company registration number 3136296**

The Directors present their annual report and the audited consolidated financial statements for the financial year ended 31 March 2016.

### **Principal activities**

#### **Background to the Group**

The Equitas Group was formed as part of the Lloyd's Reconstruction and Renewal Plan to reinsure the liabilities of Lloyd's of London syndicates allocated to the 1992 and prior years of account, other than life syndicates, and to perform the run-off of these liabilities. Equitas Reinsurance Limited ("ERL") completed the reinsurance of the 1992 and prior years' business, except business previously reinsured by Lioncover Insurance Company Limited ("Lioncover business"), with effect from 3 September 1996 and reinsured the Lioncover business with effect from 18 December 1997. It retroceded these businesses to Equitas Limited. Equitas Reinsurance Limited and Equitas Limited are authorised and regulated under the Financial Services and Markets Act 2000 by the Prudential Regulation Authority and the Financial Conduct Authority.

During 2009 a newly formed company, Equitas Insurance Limited ("Equitas Insurance"), accepted the transfer of Lloyd's Names 1992 and prior year business pursuant to the Part VII transfer described on page 2. It is a wholly owned subsidiary of the Company and is authorised and regulated under the Financial Services and Markets Act 2000 by the Prudential Regulation Authority and the Financial Conduct Authority. It is only authorised to effect and carry out the business that was transferred to it pursuant to the Part VII transfer and cannot accept any new business.

#### **The National Indemnity Transaction**

On 30 March 2007 Equitas Limited entered into a whole account retrocession agreement with National Indemnity Company, a member of the Berkshire Hathaway group of companies.

That transaction, and its implications for the Group, is outlined in the Strategic report on pages 2 to 6.

#### **Reinsurance and Run-off Contract**

The reinsurance and run-off contract ("RROC") pursuant to which Equitas reinsured Names' liabilities in September 1996 permits ERL to require Names to confirm their addresses. Following the Part VII transfer of Names' liabilities to Equitas Insurance Limited, this is no longer a requirement although Names' may wish to keep the Company informed of any change in address to facilitate the payment of any further return premium.

## **Future outlook**

The Group will continue to focus on monitoring the run-off, which is managed by RMSL as agent for Equitas Insurance Limited (formerly Reinsured Names). In addition, the Group aspires to pay a further return premium although this is not likely in the foreseeable future.

The Group has no plans to achieve recognition of the Part VII transfer outside the EEA at this time.

Solvency II came into force on 1 January 2016. The Pillar 1 quantitative requirements and Pillar 2 qualitative requirements have been embedded into our operations using the standard formula model. As expected, the capital requirements have not been met and it is unlikely that the requirement will be met in the foreseeable future. Equitas was formed under the less onerous capital requirements of Solvency I and has no means of raising additional capital. Nevertheless, the Board believes that the substantial unutilised reinsurance cover available makes the prospect of the failure of Equitas extremely remote. Equitas Insurance Limited is subject to the requirements of the Solvency II directive and Equitas Holdings Limited is required to report under Solvency II as the group holding company. Equitas Limited and Equitas Reinsurance Limited whilst not subject to Solvency II do have to report solvency criteria in line with the Solvency II requirements and, for similar reasons do not meet the capital requirements. On an annual basis the group will publish quantitative and qualitative information on Solvency II in a Solvency and Financial Condition Report ("SFCR"). The first SFCR will be prepared as at 31 March 2017.

## **Share capital and dividends**

The share capital of the Company comprises two ordinary shares of £50 each, which were issued at par on incorporation and which are fully paid, and one deferred share of £1, which was allotted on 2 September 1996 and which is fully paid. The ordinary shares carry voting rights, but no dividends may be paid on these shares. The deferred share carries neither voting nor dividend rights.

The Company's Articles of Association do not permit the payment of a dividend.

## **Substantial shareholding**

Ownership of the entire issued ordinary share capital of the Company was transferred on 3 September 1996 from the Corporation of Lloyd's to the then seven Trustees of The Equitas Trust jointly.

The current Trustees are Mr ME McL Deeny (Chairman), Messrs DES Shipley, RB Spooner and Sir Adam Ridley.

The Corporation of Lloyd's owns the one deferred share in the capital of the Company, which carries the right to appoint one Director.

## **Directors**

The names of the Directors at the date of this report are listed on page 7. All held office throughout the year and up to the date of signing these financial statements.

Messrs Deeny, Shipley, Spooner and Sir Adam Ridley are the Trustees' Nominated Directors.

Mr McGovern is the Lloyd's Appointed Director. He has waived his fees in favour of his employer, the Corporation of Lloyd's.

All Directors of the Company also hold office as Directors of Equitas Reinsurance Limited, Equitas Limited and Equitas Insurance Limited.

## **Qualifying Third Party Indemnities**

During the year each Director had the benefit of a standard indemnity under the Articles of Association of the Company, Equitas Limited, Equitas Reinsurance Limited and Equitas Insurance Limited in respect of liabilities (including legal fees and expenses) incurred in defending proceedings, whether civil or criminal, in which he is acquitted, judgment is given in his favour or certain other relief is granted. These indemnities do not cover liability attaching to a Director in connection with any finding of negligence, default, breach of duty or breach of trust by him in relation to the Company, Equitas Limited, Equitas Insurance Limited or Equitas Reinsurance Limited.

## **Financial instruments and risk management**

The Group remains exposed to financial risk through its reinsurance assets, financial assets and liabilities. The Group recognises the importance of having efficient and effective risk management systems in place to identify, manage and monitor those risks. The Group's cash flow risk is covered under the credit and liquidity risk sections.

The external investment manager, BlackRock, is permitted to use derivative financial instruments for efficient portfolio management purposes. The Fund is held to invest the long term ongoing capital reserves of the Group. There are strict limits placed on the type, value and term of such contracts; these contracts are included in the financial statements on a fair value basis. Up to 50% of the Fund can be invested in non-Sterling assets on a fully hedged basis at any one time. Fixed forward currency contracts are arranged to eliminate the currency risk. Gilt, Bund and US futures and options are bought or sold during the year to gain exposure to that market or reduce duration risk and are fully covered by cash holdings. Credit default swaps are used to hedge specific credit risk and to implement investment views. Further details of derivative positions at 31 March 2016 are provided in Note 8 to the Financial Statements.

## **Capital management**

The Group's objectives in managing its capital are to hold sufficient funds to meet the regulatory capital requirements and to provide sufficient returns to meet the ongoing expenses of the Group. The capital is available to meet obligations to policyholders should the

reinsurance cover provided by National Indemnity become exhausted; finally, when all future claims have been settled, a further return premium may be paid to former Reinsured Names. These are long term objectives which are reflected in the mandate given to BlackRock where capital preservation is the main objective. All of the Group's assets are committed to support externally imposed capital requirements; as explained on page 9, under the Solvency II regime such requirements were not met at 31 March 2016.

### **Credit risk**

Following the reinsurance agreement with National Indemnity, responsibility for paying claims and collecting reinsurance falls to RMSL. As a result, the Group's key area of risk is the ability of National Indemnity to pay amounts as they fall due under the retrocession agreement. The rating by Standard and Poor's of National Indemnity is AA+, its second highest available rating. National Indemnity currently carries the second highest credit rating of Moody's, AM Best and Fitch.

To manage the Group's risk in this area, the Group is entitled to require National Indemnity to post a letter of credit or to establish a trust fund equal to 102% or 125% of its net liabilities under the agreement (providing that this does not exceed the reinsurance cover purchased) plus estimated operating expenses, if National Indemnity's rating drops below Standard and Poor's AA- or A- ratings, respectively.

The risk to the policyholders is further mitigated by the continuing existence of the trust fund arrangements in North America and Australia. These trust funds ring fence assets to match a large proportion of the liabilities that Equitas reinsures.

The Group is exposed to credit risk on its portfolio of investments. The mandate for the external fund manager places controls over investment quality and restricts the level of exposure to each non-government counterparty. A minimum of 25% of the portfolio is invested in government related instruments or cash at all times. Further information in respect of the credit quality of the portfolio is included in Note 8 "Investments: financial investments" on page 32.

### **Insurance risk**

As described in note 2 on page 27, the insurance provisions in the Group's financial statements are subject to significant uncertainty and are based on estimates of future events, which are not all within the Group's control. The additional reinsurance protection purchased by the Group mitigates this risk to a substantial degree.

### **Interest rate risk**

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent that claims inflation is correlated with interest rates, liabilities to policyholders are subject to interest rate risk.

The Group holds fixed interest securities in its investment portfolio managed by BlackRock whose performance is closely monitored. There is some restriction imposed on the duration of the portfolio and this is controlled by the use of derivative instruments. An increase or decrease

of 100 basis points in interest yields would have an impact of approximately £0.7 million on the value of the portfolio.

The Group monitors claims inflation as part of its actuarial assessments. The additional reinsurance protection purchased by the Group mitigates this risk to a substantial degree.

### **Price risk**

The Group is exposed to price risk through its holdings in fixed interest investments. The mandate given to the external manager reflects the low risk appetite of the Group for capital loss. The external manager's performance is closely monitored.

### **Liquidity risk**

The Group manages its liquidity in order to maintain sufficient financial resources to meet obligations as they fall due. A portion of the Group's resources that would cover several months' expenses is retained in readily realisable bank and money market deposits and thus liquidity risk is low. National Indemnity is responsible for settling insurance claims.

### **Foreign currency exchange risk**

The Group's insurance liabilities are denominated in a number of foreign currencies. The reinsurance contract with National Indemnity fixes the US and Canadian Dollar rates of exchange to be used to calculate the cover at those prevailing on 31 March 2006. Through this mechanism, National Indemnity bears nearly all of the currency risk that might arise on settlement of the insurance liabilities of the Group.

The investment assets of the Group are either denominated in sterling or hedged to sterling and carry no significant currency risk.

Foreign currency risk is very low because of the high level of reinsurance cover remaining and the financial strength of National Indemnity.

### **Directors' responsibilities statement**

The directors are responsible for preparing the Strategic Report, Directors' Report and the group and parent company financial statements (the "financial statements") in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" has been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS 102 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

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

## **Charitable and political donations**

The Group has not made any charitable or political donations in the year and will not make any political donations. The Directors do not intend to make any charitable donations, but will keep this under review.

## **Disclosure of information to Auditors**

Each Director confirms that so far as he is aware there is no relevant audit information of which the Company's auditors are unaware. Each Director also confirms that he has taken all the steps that he ought to have taken as a Director in order to make himself aware of any such information and to establish whether the auditors are aware of that information.

## **Independent Auditors**

As permitted by the Company's Articles of Association, indemnities have been given to PricewaterhouseCoopers LLP against costs and liabilities incurred or arising out of their work as auditors in circumstances where a court finds in their favour.

A resolution will be put to the general meeting regarding the re-appointment of the auditors.

**By Order of the Board**

A handwritten signature in blue ink, appearing to read 'JW Heap', is positioned above the printed name.

**JW Heap**

*Chief Executive Officer*

7 June 2016

## **Independent auditors' report to the members of Equitas Holdings Limited**

### **Report on the financial statements**

#### **Our opinion**

In our opinion, Equitas Holdings Limited's group financial statements and parent company financial statements (the "financial statements"):

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

#### **Emphasis of matter - Group - Provision for claims outstanding**

In forming our opinion on the group financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 2 to the financial statements concerning the uncertainties relating to the provision for claims outstanding of £4,768 million and reinsurers' share of claims outstanding of £4,768 million. Future experience may show that material adjustments are required to these amounts in respect of assumptions made in estimating provisions and the potential for unforeseen change in the legal, judicial, technological or social environment, the risk of unexpected outcomes on disputed claims and court decisions and including the potential for new sources or types of claim to emerge. As described in note 1 to the financial statements, because of the reinsurance with National Indemnity Company, movements in claims outstanding would only affect the result for the year or net assets if the remaining reinsurance cover becomes exhausted.

#### **What we have audited**

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Group and Company Balance Sheets as at 31 March 2016;
- the Group Profit and Loss account for the year then ended;
- the Group Cash Flow statement for the year then ended;
- the Group and Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

#### **Opinion on other matter prescribed by the Companies Act 2006**

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



## **Other matters on which we are required to report by exception**

### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### **Directors' remuneration**

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

## **Responsibilities for the financial statements and the audit**

### **Our responsibilities and those of the directors**

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the parent company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **What an audit of financial statements involves**

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

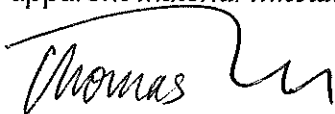
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the

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knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

A handwritten signature in black ink, appearing to read 'Thomas', followed by a stylized flourish.

Thomas Robb (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London  
7 June 2016

## Group profit and loss account

for the year ended 31 March 2016

### Technical account – general business

	Note	2016 £m	2015 £m
Gross premiums written		-	-
Outwards reinsurance premiums		-	-
Net premiums written		-	-
<b>Earned premiums, net of reinsurance</b>		-	-
Allocated investment return transferred from the non-technical account		-	-
Claims paid			
Gross amount		(443)	(236)
Reinsurers' share		443	236
Net claims paid		-	-
Change in the provision for claims			
Gross amount		(254)	302
Reinsurers' share		254	(302)
Change in the net provision for claims		-	-
Claims incurred, net of reinsurance		-	-
Other income		-	-
Other technical charges		-	-
<b>Balance on the technical account for general business</b>		-	-

The accounting policies and notes on pages 25 to 40 form an integral part of these financial statements.

## Group profit and loss account

for the year ended 31 March 2016

Non-technical account	Note	2016 £m	2015 £m
Balance on the general business technical account		-	-
Income from other financial investments		1	1
(Loss)/gain on the realisation of investments		(2)	(1)
Unrealised gain/(loss) on investments		-	1
		(1)	1
Allocated investment return transferred to the general business technical account		-	-
		(1)	1
Administrative expenses		(1)	(1)
Loss on ordinary activities before tax		(2)	-
Tax on profit on ordinary activities	7	-	-
<b>Loss for the financial year</b>	12	<b>(2)</b>	<b>-</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the year</b>		<b>(2)</b>	<b>-</b>
<b>Total comprehensive loss attributable to owners</b>		<b>(2)</b>	<b>-</b>

Neither gains and losses of an insurance group arising on the disposal of investments; nor the effect of fair value accounting for financial instruments are required to be included in a note of historical profits and losses. There are no other differences between the profit on ordinary activities before tax or the profit for the financial year stated above (and the prior year) and their historical cost equivalents.

The Group has no discontinued activities.

The accounting policies and notes on pages 25 to 40 form an integral part of these financial statements.

**Group balance sheet**

as at 31 March 2016

**Assets**

	<i>Note</i>	<i>2016 £m</i>	<i>2015 £m</i>
<hr/>			
<b>Investments</b>			
Other Financial investments	8	82	85
 <b>Reinsurers' share of technical provisions</b>			
Claims outstanding	13	4,768	4,901
 <b>Other assets</b>			
Cash at bank and in hand		2	1
Other debtors	10	-	-
 <b>Prepayments and accrued income</b>			
Prepayments and accrued income	10	1	1
<hr/>			
<b>Total assets</b>		<b>4,853</b>	<b>4,988</b>
<hr/>			

The accounting policies and notes on pages 25 to 40 form an integral part of these financial statements. The Company's balance sheet is shown on page 22.

**Group balance sheet**

as at 31 March 2016

**Liabilities**

	Note	2016 £m	2015 £m
<b>Capital and Reserves</b>			
Called up share capital	11	-	-
Profit and loss account	12	78	80
<b>Shareholders' funds – non-equity interests</b>		<b>78</b>	<b>80</b>
<b>Technical provisions</b>			
Claims outstanding	13	4,768	4,901
<b>Creditors</b>			
Creditors arising out of reinsurance operations	14	6	6
Other creditors including taxation and social security		1	1
		<b>7</b>	<b>7</b>
<b>Total liabilities</b>		<b>4,853</b>	<b>4,988</b>

The financial statements on pages 18 to 40 were approved by the Board on 7 June 2016 and signed on its behalf by:



DES Shipley  
Chairman



JW Heap  
Chief Executive Officer

The accounting policies and notes on pages 25 to 40 form an integral part of these financial statements. The Company's balance sheet is shown on page 22.



## Company balance sheet

as at 31 March 2016

	Note	2016 £	2015 £
<b>Investments</b>			
Investments in Group Undertakings	19	35,947,375	35,184,040
Financial Investments	8	-	-
		<b>35,947,375</b>	<b>35,184,040</b>
<b>Current assets</b>			
Cash at bank		48,684	26,154
Other debtors		0	0
Amounts due from Group undertakings		6,329,949	6,375,180
Prepayments and accrued income		-	-
<b>Current liabilities</b>			
Creditors		38,402	37,143
<b>Total assets less current liabilities</b>		<b>42,287,606</b>	<b>41,548,231</b>
<b>Creditors – amounts falling due after more than one year</b>			
Amounts owed to Group undertakings		200	200
<b>Net assets</b>		<b>42,287,406</b>	<b>41,548,031</b>
<b>Capital and reserves</b>			
Called up share capital	11	101	101
Profit and loss account	12	42,287,305	41,547,930
<b>Shareholders' funds – non-equity interests</b>		<b>42,287,406</b>	<b>41,548,031</b>

The financial statements on pages 18 to 40 were approved by the Board on 7 June 2016 and were signed on its behalf by:



DES Shipley  
Chairman



JW Heap  
Chief Executive Officer

The accounting policies and notes on pages 25 to 40 form an integral part of these financial statements.

## Statement of changes in equity

for the year ended 31 March 2016

<b>Group - consolidated</b>	<b>Called-up share capital £m</b>	<b>Profit and loss account £m</b>	<b>Total £m</b>
Balance at 1 April 2014	-	80	80
Profit for the year	-	-	-
Total comprehensive income for the year	-	-	-
Balance at 31 March 2015	-	80	80
<b>Balance at 1 April 2015</b>	-	80	80
<b>Loss for the year</b>	-	(2)	(2)
<b>Total comprehensive loss for the year</b>	-	(2)	(2)
<b>Balance at 31 March 2016</b>	-	78	78

<b>Company</b>	<b>Called-up share capital £</b>	<b>Profit and loss account £</b>	<b>Total £</b>
Balance at 1 April 2014	101	40,840,483	40,840,584
Profit for the year	-	707,447	707,447
Total comprehensive income for the year	-	707,447	707,447
Balance at 31 March 2015	101	41,547,930	41,548,031
<b>Balance at 1 April 2015</b>	101	41,547,930	41,548,031
<b>Profit for the year</b>	-	739,375	739,375
<b>Total comprehensive loss for the year</b>	-	739,375	739,375
<b>Balance at 31 March 2016</b>	101	42,287,305	42,287,406

The accounting policies and notes on pages 25 to 40 form an integral part of these financial statements.



## Group cash flow statement

for the year ended 31 March 2016

### Reconciliation of profit on ordinary activities before tax to net cash outflow from operating activities

	Note	£m	2016 £m	2015 £m
(Loss)/Profit on ordinary activities before tax			(2)	-
Decrease/(increase) in reinsurers' share of technical provisions - claims outstanding	133		(670)	
(Decrease)/increase in provision for claims outstanding	(133)		670	
(Increase)/decrease in prepayments and accrued income		-	-	
			(2)	-
<b>Net cash (outflow)/inflow from operating activities</b>			(2)	-
Taxes paid during the year			-	-
<b>Net cash (outflow)/inflow for the year</b>			(2)	-
<b>Cash flows were (applied)/invested as follows:</b>				
Increase in cash holdings			1	-
Net portfolio investment				
Shares and other variable yield securities and units in unit trusts		20	-	
Debt securities and other fixed interest securities		(26)	1	
Deposits with credit institutions		2	-	
Derivatives		1	(1)	
			(3)	-
<b>Net investment of cash flows</b>	17		(2)	-

The accounting policies and notes on pages 25 to 40 form an integral part of these financial statements.

## Notes to the financial statements

### for the year ended 31 March 2016

#### 1. Accounting policies – Transition to FRS 102

This is the first year that the Group and Company have presented their results under FRS 102. The last financial statements under the previous UK GAAP were for the year ended 31 March 2015. The date of transition to FRS 102 was 1 April 2015.

No changes in respect of accounting policies have been made and no adjustment to previous reported figures is required.

#### **Going concern**

The financial statements have been prepared on a going concern basis.

Significant uncertainties exist as to the accuracy of the provision for claims outstanding established by Equitas Insurance Limited. Adjustments to claims outstanding due to the uncertainties highlighted in note 2 may be material. Because of the terms of the reinsurance agreement with National Indemnity, Equitas is not exposed to movements in claims outstanding provided these remain within the limits of the reinsurance cover purchased. As discussed on page 2 the unused additional reinsurance cover is currently substantial.

In view of the financial strength of National Indemnity and the size of the additional reinsurance cover available to the Group following the completion of both phases of the National Indemnity transaction, in overall terms and relative to the size of the provision for claims outstanding, the Directors have concluded that it continues to be appropriate to prepare the financial statements on a going concern basis.

#### **Basis of presentation**

The Group financial statements have been prepared under the provision of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance groups.

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" and Financial Reporting Standard 103, "Insurance Contracts".

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries drawn up to 31 March each year. Uniform accounting policies have been adopted across the Group and profits/losses have been eliminated from intra Group transactions.

#### **Other accounting policies**

A summary of the more important accounting policies is set out below. The accounting policies have been applied consistently.

*(a) Basis of accounting*

The financial statements have been prepared in accordance with the historical cost convention modified by the revaluation of certain assets and liabilities. An annual basis of accounting has been adopted.

*(b) Claims and related reinsurance recoveries*

The provision for claims outstanding in the consolidated balance sheet is based upon the estimated ultimate cost of all claims, including those incurred but not reported ("IBNR") at the balance sheet date. Provisions for claims outstanding are stated gross of recoveries to be made on reinsurance contracts purchased by the reinsured syndicates and the Group.

Claims incurred include deductions for salvage and other recoveries. Additional premiums receivable and payable by syndicates in respect of risks accepted under the Reinsurance and Run-Off Contract are included within the movement of claims incurred.

*(c) The reinsurance contract with National Indemnity*

The reinsurance recoveries received and receivable from National Indemnity are reported through the technical account.

Reinsurance recoveries on claims outstanding represent the amount recoverable under the reinsurance contract from National Indemnity and equate to the gross claims outstanding. The additional cover over and above these reserves provided by the reinsurance agreement is not reported in the balance sheet until such time as it is required.

*(d) Discounting*

The reinsured liabilities accepted and reinsurance assets ceded are not discounted.

*(e) Deferred taxation*

Provision is made for deferred taxation, using the liability method, on all material timing differences. Deferred tax, which is calculated at the rates at which it is expected that the tax will arise, is recognised in the profit and loss account for the period. Deferred tax balances are not discounted. The deferred tax asset is not recognised on the balance sheet if the amount is not expected to be utilised in the foreseeable future.

*(f) Investments*

Investments are classified at fair value through the profit and loss account as investments that are held for trading. Listed investments are stated at bid prices quoted by the relevant exchanges. Other investments, including futures, options and credit default swaps are stated at bid prices provided by various recognised sources. For short term money market instruments, where market values are not available, fair values are calculated by discounting expected cash flows at prevailing interest rates at the balance sheet date. The fair values of forward exchange contracts are determined based on market forward exchange rates at the balance sheet date. Purchases and sales of investments are accounted for on a trade date basis.

In the Company's financial statements, investments in Group undertakings are stated at cost.

*(g) Investment return*

The return from investments is reported on an accruals basis and includes realised gains and losses and movements on unrealised gains and losses. The investment return is retained in the non-technical account.

*(h) Foreign exchange*

Monetary assets and liabilities are translated into sterling at the rates of exchange prevailing at the balance sheet date and the exchange differences taken to the profit and loss account. Transactions during the period are translated into sterling using the rate of exchange prevailing at the time of the transaction, with the exchange differences taken to the profit and loss account.

*(i) Pension costs*

The Group provides no post-retirement benefits to its employee.

## **2. Estimation techniques and uncertainties**

### ***Introduction***

The last comprehensive actuarial review was undertaken at 31 August 2015, and the figures were rolled forward to 31 March 2016. The core estimation techniques described below are expected to be followed in future years, although the level and frequency of reviews in each area may be reduced in view of the much improved financial position of the Group following the National Indemnity transaction.

Because of the uncertainties inherent in the Group's liabilities, there are many assumptions and estimation techniques described below which individually could have a material impact on the amount of liabilities and the related reinsurance assets. Actual experience will often vary from these assumptions, and any consequential adjustments to amounts previously reported will be reflected in the results of the year in which they are identified. The provision for claims outstanding is based upon actuarial and other studies of the ultimate cost of liabilities including exposure based and statistical estimation techniques.

Significant delays occur in the notification and settlement of certain claims, and a substantial measure of experience and judgment is involved in making the assumptions for assessing outstanding liabilities, the ultimate cost of which cannot be known with certainty at the balance sheet date. The gross provision for claims outstanding and related reinsurance recoveries is estimated on the basis of information currently available.

The provision for claims outstanding includes significant amounts in respect of notified and potential IBNR claims for long tail liabilities. The settlement of these claims is not expected to occur for many years, and there is considerable uncertainty as to the amounts at which they will be settled.

Where a claim is disputed, the validity of the claim is ultimately an issue that can only be determined by the courts. The provisions for disputed claims are based on the Group's view as to the expected outcomes of such court decisions.

Uncertainty is further increased because of the potential for unforeseen changes in the legal, judicial, technological or social environment, which may increase or decrease the cost, frequency or reporting of claims, and because of the potential for new sources or types of claim to emerge.

### ***Asbestos claims***

In estimating asbestos liabilities, the Group follows a highly developed actuarial framework. The majority of asbestos reserves is estimated by modelling the expected claims from policyholders.

The number of future claims is projected for direct policyholders based on past claims experience combined with the results of epidemiological and other relevant studies that predict the incidence of asbestos related diseases into the future. This is then combined with estimates of the average cost of settling different types of claims for each policyholder to give a total value of claims to the relevant underlying policyholders. The results of these projections are then applied to the insurance coverage available for those policyholders, resulting in an estimation of the Group's liabilities arising from claims against those policyholders. The results are then adjusted to take into account liabilities in respect of policyholders that are not modelled explicitly, including an amount for those liabilities of which the Group may be currently unaware.

For inwards reinsurance a survival ratio approach is used for the majority of the liabilities. To derive the appropriate survival ratios the starting point is the work done on the projected liabilities for underlying policyholders. These survival ratios are then adjusted to reflect the estimated overall impact of the insurance coverage provided by our cedants and the reinsurance coverage provided to these cedants by Lloyd's, together with an allowance for the time taken to present and agree claims at each stage of the process.

The techniques described above include a number of important assumptions, including:

- the projected level of future valid claims filings for each policyholder by disease type;
- future levels of claims settlement values;
- the impact of bankruptcy of policyholders on the amount and timing of claims payments;
- the legal interpretation of insurance policies and the outcome of litigation, based upon legal advice received; and
- the period between the filing and payment of claims.

### ***Pollution and health hazard claims***

Pollution liabilities are estimated for policyholders by evaluating the expected costs to be incurred by the policyholders in cleaning up polluted sites and then applying these costs to the insurance coverage available. The pollution liabilities expected by means of inwards reinsurance are evaluated in a similar manner, but with the additional step of applying the ceding companies' expected liabilities to the reinsurance cover available.

Allowance is then made for liabilities in respect of policyholders for which either sufficient information is unavailable to carry out the above analysis or which have not yet been identified.

Health hazard liabilities are estimated using similar principles to the above, in that the liabilities of the policyholder are estimated for the majority of reserves and then applied to the insurance coverage.

These evaluation techniques involve a number of important assumptions, including:

- the validity and quantum of the claims potentially faced by the policyholder;
- the legal interpretation of insurance policies and the outcome of litigation, based upon legal advice received; and
- the degree to which potential or unforeseen health hazards may have an effect on the liabilities.

### ***Other claims***

The other liabilities comprise a wide range of claim types. They are analysed into a number of homogenous subgroups, with the estimation approach for each chosen to reflect the nature of the liabilities and the information available. The approaches used include calendar year and development year projections, and in some cases this includes modelling the outcome for individual claims.

### ***Operating expenses***

National Indemnity is responsible for current and future operating expenses for as long as the net claims paid by National Indemnity are less than the total cover available therefore no provision is required.

### ***Reinsurance recoveries***

Reinsurance recoveries on claims outstanding represent the reinsurance purchased from National Indemnity. The reinsurance agreement with National Indemnity provides cover for all of Equitas Limited's claims liabilities, provided those liabilities are less than the total cover provided and therefore equates to the provision for claims outstanding. Reinsurance recoveries are considered recoverable in full.

## **3. Segmental information**

Gross claims incurred and reinsurance balance by class of business were as follows:

	<b>Gross claims incurred</b>		<b>Reinsurance Balance</b>	
	<b>2016 £m</b>	<b>2015 £m</b>	<b>2016 £m</b>	<b>2015 £m</b>
Third party liability	187	532	(187)	(532)
Other	2	6	(2)	(6)
<b>Total</b>	<b>189</b>	<b>538</b>	<b>(189)</b>	<b>(538)</b>

All business was written in the UK.

#### 4 Auditors' remuneration

During the year the Group obtained the following services from the Group's auditors at costs as detailed below:

	Group 2016 £000	Group 2015 £000
Fees payable to the Company's auditor and its associates for the audit of the parent Company and consolidated financial statements	20	20
<b>Fees payable to the Company's auditor and its associates for other services:</b>		
Fees payable to the Company's auditor for other services:		
The audit of the Company's subsidiaries, pursuant to legislation	192	187
Other services pursuant to legislation, including the audit of the regulatory return	11	11
	<b>223</b>	<b>218</b>

#### 5. Employees

The Group employed 1 person, the Executive Director, during the year ended 31 March 2016 (2015: 1), who was engaged in run-off and related activities.

Total staff costs, including those for Directors, comprised the following:

	Group 2016 £000	Group 2015 £000
Wages and salaries (including directors' fees)	279	275
Social security costs	28	28
	<b>307</b>	<b>303</b>

#### 6. Directors' emoluments

The aggregate remuneration of the Directors was as follows:

	Group 2016 £000	Group 2015 £000
Executive Director	120	120
Non-Executive Directors - fees	159	155
	<b>279</b>	<b>275</b>

The Executive Director was the highest paid director.

## 7. Tax on profit on ordinary activities

### Analysis of charge/(credit) in the year

	Group 2016 £m	Group 2015 £m
United Kingdom corporation tax at 20% (2015: 21%)	-	-
Current tax	-	-
Deferred tax – origination and reversal of timing differences	-	-
	-	-

### Factors affecting the tax charge/(credit) for the year

The tax assessed for the year differs from (2015: differs from) the standard rate of corporation tax in the UK. The differences are explained below:

	Group 2016 £m	Group 2015 £m
(Loss)/Profit on ordinary activities before tax	(1.7)	0.4
(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 20% (2015: 21%)	(0.3)	0.1
Effects of:		
Losses brought forward	-	(0.1)
Non taxable income	-	-
Losses carried forward	0.3	-
Current tax (credit) for the year	-	-

There is an unrecognised deferred tax asset of £216 million (2015: £216 million) arising on losses carried forward within the Group, which is not expected to be utilised in the foreseeable future.



**8. Investments: financial investments**

	Group 2016		Group 2015	
	Market Value £m	Cost £m	Market Value £m	Cost £m
<b>Listed</b>				
Shares and other variable yield securities and units in unit trusts	29	29	9	9
Debt securities and other fixed interest securities	50	49	76	74
	79	78	85	83
<b>Unlisted</b>				
Deposits with credit institutions	3	3	1	1
<b>Derivatives</b>				
Gilt/90 day Futures - net value	-		(1)	
Bund Futures - net value	-		-	
US Treasury Futures - net value	-		-	
Credit Default Swaps – net value	-		-	
Forward currency contracts - EUR asset	10		10	
- EUR liabilities	(10)		(10)	
- USD assets	1		1	
- USD liabilities	(1)		(1)	
	-		(1)	
	82	81	85	84

The net notional values of the derivatives included in the table above were:

	Net Notional Value 2016 £m	Net Notional Value 2015 £m
Gilt/90 day Futures	21	193
Bund Futures	2	-
US Treasury Futures	-	193
Credit Default Swaps	9	9

The Group has adopted FRS 29. This requires, for financial instruments held at fair value in the balance sheet, disclosure of fair value measurement by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices) (Level 2);
- Inputs for the assets or liabilities that are not based on observable market data (i.e. unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities measured at fair value at 31 March:

	Level 1		Level 2		Level 3		Total	
	2016	2015	2016	2015	2016	2015	2016	2015
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>								
Shares and other variable yield securities and units in unit trusts	-	-	29	9	-	-	29	9
Debt securities and other fixed interest securities	21	25	29	51	-	-	50	76
Derivatives - net	-	(1)	-	-	-	-	-	(1)
<b>Net</b>	<b>21</b>	<b>24</b>	<b>58</b>	<b>60</b>	<b>-</b>	<b>-</b>	<b>79</b>	<b>84</b>

The assets bearing credit risk are summarised below, together with an analysis by credit rating:

	2016	2015
	£m	£m
Shares and other variable yield securities and units in unit trusts	29	9
Debt securities and other fixed interest securities	50	76
Derivatives (net)	-	(1)
Deposits with credit institutions	3	1
Cash at bank and in hand	2	1
	<b>84</b>	<b>86</b>
AAA	57	46
AA	2	4
A	13	17
BBB	11	17
BB	1	2
Not Rated	-	-
	<b>84</b>	<b>86</b>

Further disclosures relating to financial instruments and financial risk management are included in the Directors' report on pages 10 to 12.

## 9. Trust funds

A significant amount of the Group's liabilities in the United States, Canada and Australia were backed by assets held in trust funds. Following the transaction with National Indemnity, the Group no longer has an economic interest in the assets within those trust funds and therefore they are no longer recorded in the Group's balance sheet in compliance with Financial Reporting Standard 102.

**10. Debtors, prepayments and accrued income**

Prepayments and accrued income and other debtors of £1 million (2015: £1m) do not include any amount due after more than one year.

**11. Called up share capital**

	<i>Company 2016 £</i>	<i>Company 2015 £</i>
<b>Authorised, allotted and fully paid</b>		
1 deferred share of £1	<b>1</b>	1
2 ordinary shares of £50 each	<b>100</b>	100
	<b>101</b>	101

All of these shares were issued at par and are fully paid.

The deferred share carries the right to appoint and remove one Director of the Company (who will also serve as a Director of Equitas Reinsurance Limited, Equitas Insurance Limited and Equitas Limited) and is held by the Corporation of Lloyd's. On winding up, the deferred share carries no rights to any portion of surplus assets of the Company other than a return of the par value. Accordingly, it is a non-equity share.

The ordinary shares bear the right to appoint and remove the remaining Directors of the Company and to decide all matters reserved for decision by shareholders. The Articles of Association do not permit the payment of a dividend on the ordinary shares. Accordingly, these are non-equity shares.

The Group's capital is mainly used to meet the ongoing regulatory capital requirements of its PRA regulated subsidiaries. This is considered to be a long term obligation so most of the Group's resources have been invested in a bond portfolio managed by BlackRock for long term growth and return. A total of £78 million (2015: £ 80 million) of the Group's capital is invested in regulated subsidiaries.

**12. Profit and loss account**

	<i>Company £m</i>	<i>Group £m</i>
At 1 April 2015	41	80
Profit/(loss) for the financial year	1	(2)
<b>At 31 March 2016</b>	<b>42</b>	<b>78</b>

The retained profit is not distributable by way of dividend.

As permitted by section 408 of the Companies Act 2006, the Company's profit and loss account has not been included in these financial statements. The Company's surplus for the financial year was £1 million (2015:£1 million).

### 13. Provision for claims outstanding

	Claims £m	Reinsurance £m	Group 2016 Net £m	Claims £m	Reinsurance £m	Group 2015 Net £m
Provision	4,768	4,768	-	4,901	4,901	-

#### (a) Claims and reinsurance recoveries

Claims and reinsurance recoveries are stated after elimination of inter-syndicate transactions.

#### (b) Estimation techniques and uncertainties

Details of the estimation techniques employed in the setting of the provision for claims outstanding and the associated uncertainties appear in note 2 on page 27.

Gross claims outstanding are sensitive to actuarial judgements, most notably future inflation rates and asbestos filing patterns. However, due to the whole account retrocession agreement between National Indemnity and the company, any change in estimate will affect the gross claims liability and reinsurance recoverable on the balance sheet, but will have no impact on the Profit and Loss account.

The geographical concentration of insurance liabilities by industry sector and the development of estimated ultimate claims costs are shown in the following tables.

### Geographic concentration:

#### Year ended 31 March 2016

Territory		Type of Risk					General	Total
		Motor	Accident and health	Third- party liability	Fire & other damage to property	Marine		
		£m	£m	£m	£m	£m	£m	£m
United Kingdom	Gross	-	1	618	-	-	-	619
	Net	-	-	-	-	-	-	-
USA	Gross	-	34	3,840	-	-	3	3,877
	Net	-	-	-	-	-	-	-
Australia	Gross	-	-	175	-	-	-	175
	Net	-	-	-	-	-	-	-
Other	Gross	-	1	78	18	-	-	97
	Net	-	-	-	-	-	-	-
<b>Total</b>	<b>Gross</b>	-	<b>36</b>	<b>4,711</b>	<b>18</b>	-	<b>3</b>	<b>4,768</b>
	<b>Net</b>	-	-	-	-	-	-	-

## Year ended 31 March 2015

Territory		Type of Risk					Marine	Aviation	General	Total
		Motor	Accident and health	Third-party liability	Fire & other damage to property					
		£m	£m	£m	£m	£m	£m	£m	£m	£m
United Kingdom	Gross	-	-	663	-	-	-	-	-	663
	Net	-	-	-	-	-	-	-	-	-
USA	Gross	-	32	3,924	-	-	-	-	7	3,963
	Net	-	-	-	-	-	-	-	-	-
Australia	Gross	-	-	185	-	-	-	-	-	185
	Net	-	-	-	-	-	-	-	-	-
Other	Gross	-	-	70	20	-	-	-	-	90
	Net	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>Gross</b>	-	<b>32</b>	<b>4,842</b>	<b>20</b>	-	-	-	<b>7</b>	<b>4,901</b>
	<b>Net</b>	-	-	-	-	-	-	-	-	-

## Claims development for the last ten years:

	Gross claims estimate of ultimate	Net claims estimate of ultimate
	£m	£m
31 March 2006	4,176	-
One year later	5,165	-
Two years later	5,147	-
Three years later	6,855	-
Four years later	6,750	-
Five years later	6,576	-
Six years later	6,622	-
Seven years later	6,949	-
Eight years later	6,739	-
Nine years later	7,645	-
Current estimate of cumulative claims	7,955	-
Claims payments during the period	(3,187)	-
<b>Liability recognised in the balance sheet</b>	<b>4,768</b>	<b>-</b>

In line with FRS 103 it is not necessary to provide liability maturity analyses if estimated timing of the net cash outflows resulting from recognised insurance liabilities is disclosed. However, as National indemnity is responsible for settling insurance claims directly as part of the whole account retrocession agreement, net cash outflows for the foreseeable future are expected to be nil.

**14. Creditors arising out of reinsurance operations**

Following completion of the reinsurance agreement with National Indemnity in 2007, the Group declared an intention to pay an aggregate return premium of £50 million. The first payments in respect of this amount were made in June 2007; at 31 March 2016, £6 million was unpaid (2015: £6 million). All creditors arising out of reinsurance operations are payable within one year.

**15. Reconciliation of movements in Group shareholders' funds**

	Group 2016 £m	Group 2015 £m
Opening shareholders' funds	80	80
(Loss)/Profit for the financial year (see note 12)	(2)	-
<b>Closing shareholders' funds</b>	<b>78</b>	<b>80</b>

**16. Movement in portfolio investments net of financing**

	Group 2016 £m	Group 2015 £m
<b>Increase/(Decrease) in cash holdings</b>	<b>1</b>	<b>-</b>
<b>Net cash inflow/(outflow) for the year</b>	<b>1</b>	<b>-</b>
Movement arising from cash flows of portfolio investments	(3)	-
Changes to market values	-	-
<b>Total movement in portfolio investments net of financing</b>	<b>(3)</b>	<b>-</b>
Opening portfolio investments net of financing	86	86
<b>Closing portfolio investments net of financing</b>	<b>84</b>	<b>86</b>

**17. Movement in cash and portfolio investments net of financing**

	At 31 March 2015 £m	Cash flow £m	Changes to market values £m	At 31 March 2016 £m
Cash at bank and in hand	1	1	-	2
Shares and other variable yield securities and units in unit trusts	9	20	-	29
Debt securities and other fixed interest securities	76	(25)	(1)	50
Deposits with credit institutions	1	2	-	3
Derivatives	(1)	-	1	-
	86	(2)	-	84

During the year shares and other variable yield securities and units in unit trusts of £51 million (2015: £119 million) were purchased and £31 million (2015: £119 million) were sold. For the same period debt securities and other fixed income securities of £27 million were purchased (2015: £174 million) and £52 million were sold (2015: £174 million).

## 18. Contingent liabilities and assets

The Group has granted certain indemnities to Trustees, Directors, Employees and the Auditors.

The Group had no other material contingent liabilities or assets outside the normal course of business at the balance sheet date.

## 19. Investments in Group undertakings

<i>Company Name</i>	<i>Class and proportion of shares held</i>	<i>Country of incorporation</i>	<i>Business activities</i>
Equitas Reinsurance Limited*	Ordinary 100%	England	Reinsurance
Equitas Limited*	Ordinary 100%	England	Reinsurance run-off
Equitas Insurance Limited	Ordinary 100%	England	General insurance
Equitas Policyholders Trustee Limited	Ordinary 100%	England	Trustee

*\*Held via a subsidiary*

<i>Company Name</i>	<i>Shares in Group undertakings</i>	<i>Loans to Group undertakings</i>	<i>Total</i>
	<i>£</i>	<i>£</i>	<i>£</i>
Equitas Insurance Limited	16,500,000	19,447,275	35,947,275
Equitas Policyholders Trustee Limited	100	-	100

During the year Equitas Holdings Limited capitalised interest of £763,335 due on the subordinated loan to Equitas Insurance Limited. The loan is for an indefinite period and is repayable at such time as Equitas Insurance Limited may determine.

The Directors believe that the carrying value of the investments is supported by their underlying net assets.

No dividends may be paid or capital distributions made by Equitas Reinsurance Limited or Equitas Limited. The return premium of £50 million provided for in 2007 is being paid by Equitas Reinsurance Limited to Reinsured Names as outlined in the Group strategic report for the year on page 2.

## 20. Financial commitments

The Group had no ongoing financial commitments (2015: nil).

## 21. The Equitas Trustees

The Trust Deed constituting The Equitas Trust contains provisions entitling the Trustees to remuneration and the discharge of expenses properly incurred by them in acting as Trustees.

These are met by the Group and are defined as related party transactions under Financial Reporting Standard 102.

	<i>Group 2016 £</i>	<i>Group 2015 £</i>
Trustees' fees	<b>83,000</b>	78,667
Trustees' legal, professional and other costs and expenses	<b>31,679</b>	38,740
<b>Total</b>	<b>114,679</b>	117,407

Messrs ME McL Deeny, DES Shipley, RB Spooner and Sir Adam Ridley, who were also Directors of the Company during the year, received Trustees' fees of £35,000, £16,000, £16,000, £16,000 respectively for the year ended 31 March 2016 (2015: £31,833, £17,500, £16,000, £13,333 respectively). They received expenses for secretarial, office and other overheads of £20,000, £nil, £2,000, £2,000 respectively (2015: £17,167, £nil, £2,000, £2,000 respectively).



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