

CITY RE LIMITED

Directors' Report and Financial Statements

For the year ending 31 March 2016

CITY RE LIMITED

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CITY RE LIMITED

CORPORATE INFORMATION

DIRECTORS:

Mr G A Hollingsworth
Mr S A Le Prevost
Dr P R Kane
Mr R A H Chadwick (Resigned 10 May 2016)

INSURANCE MANAGER:

JLT Insurance Management (Guernsey) Limited
Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 4ET

SECRETARY:

JLT Insurance Management (Guernsey) Limited
Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 4ET

REGISTERED OFFICE:

Mill Court
La Charroterie
St Peter Port
Guernsey
GY1 4ET

AUDITOR:

Moore Stephens
Town Mills South
La Rue Du Pre
St Peter Port
Guernsey
GY1 1LT

CITY RE LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ending 31 March 2016.

INCORPORATION

The Company was incorporated in Guernsey, Channel Islands on 20 December 2010 with registered number 52816. It operates in accordance with the provisions of The Companies (Guernsey) Law, 2008 and The Insurance Business (Bailiwick of Guernsey) Law, 2002 to carry out general insurance business, excluding domestic business.

ACTIVITIES

The principal activity of the Company during the year was to provide re-insurance protection to the RSA Group on the risks associated with material damage and loss of rent for the City of London's property portfolio.

RESULTS

The results for the year are shown on page 7.

DIVIDENDS

During the year the directors proposed and agreed the payment of a dividend in the sum of £830,013 (2015: £92,569)

DIRECTORS

The directors of the Company who held office during the period are detailed on page 3.

DISCLOSURE OF INFORMATION TO AUDITOR

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

AUDITOR

The Auditor, Moore Stephens, has indicated its willingness to continue in office and offers itself for re-appointment at the forthcoming Annual General Meeting.

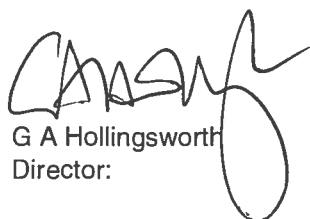
CHANGES TO FINANCIAL REPORTING FRAMEWORK

For the current period new UK accounting standards came into effect, replacing the previously effective UK accounting standards and the Association of British Insurers Statement of Recommended Practice. The Company has applied these new standards, including FRS102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* ("FRS102") and FRS103 *Insurance Contracts* ("FRS103").

GOING CONCERN

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

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



G A Hollingsworth
Director:

Date 20th June 2016



S A Le Prevost
Director:

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Director's Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts". 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 the affairs of the company and the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CITY RE LIMITED

We have audited the financial statements of City Re Limited for the year ended 31 March 2016 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and Financial Reporting Standard 103 "Insurance Contracts".

This report is made solely to the company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- comply with The Companies (Guernsey) Law, 2008 and The Insurance Business (Bailiwick of Guernsey) Law, 2002.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the company; or
- the financial statements are not in agreement with the accounting records; or
- we have failed to obtain all the information and explanations, which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

We have nothing to report in respect of the following matters where The Insurance Business (Bailiwick of Guernsey) Law, 2002 requires us to report to you if, in our opinion:

- the information given in the annual return prepared pursuant to section 33 is inconsistent with the financial statements; or
- there is any transaction outside the normal course of business which resulted in the Statement of Financial Position showing a situation materially different from that which would otherwise have obtained, and which is not adequately disclosed in the financial statements.



MOORE STEPHENS

St Peter Port, Guernsey, GY1 3HZ

Date 22 June 2016

CITY RE LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDING 31 MARCH 2016

CONTINUING OPERATIONS	<i>Notes</i>	31 Mar 2016 £	31 Mar 2015 £
REVENUE			
Gross premiums written	2	1,610,572	1,700,456
Change in unearned premium provision	2	15,352	-
Premium earned for the year		1,625,924	1,700,456
UNDERWRITING EXPENSES			
Claims payable	2	(1,123,306)	(1,069,293)
Claims reserve movement - Outstanding Loss Reserve	2	(252,421)	310,348
Commission	2	(40,648)	(42,512)
Total underwriting expenses		(1,416,375)	(801,457)
UNDERWRITING RESULT FOR THE YEAR		209,549	898,999
Interest income	2	17,047	18,632
Administrative expenses	6	(83,465)	(74,978)
PROFIT BEFORE TAXATION AND COMMISSION		143,131	842,653
Profit commission payable	2	(2,147)	(12,640)
PROFIT BEFORE TAXATION		140,984	830,013
Taxation	5	-	-
RETAINED PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		140,984	830,013

The notes on pages 11 to 18 form part of these financial statements.

CITY RE LIMITED

STATEMENT OF FINANCIAL POSITION AT 31 MARCH 2016

	Notes	31 Mar 2016 £	31 Mar 2015 £
CURRENT ASSETS			
Deferred commission		30,963	31,346
Prepaid expenses		15,498	15,483
Cash and cash equivalents		3,811,160	4,282,275
TOTAL ASSETS		3,857,621	4,329,104
EQUITY AND LIABILITIES			
Issued capital	7	500,000	500,000
Retained earnings		140,984	830,013
TOTAL EQUITY		640,984	1,330,013
LIABILITIES			
Trade and other payables	8	181,720	201,243
TECHNICAL RESERVES			
Unearned premium reserve	2	1,238,514	1,253,866
Claims reserves	9	1,796,403	1,543,982
TOTAL EQUITY AND LIABILITIES		3,857,621	4,329,104

These financial statements were approved by the Board of Directors on 20 June 2016

Signed on behalf of the Board of Directors



G A Hollingsworth
Director



S A Le Prevost
Director

The notes on pages 11 to 18 form part of these financial statements.

CITY RE LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDING 31 MARCH 2016

	31 Mar 2016 £	31 Mar 2015 £
Balance at the beginning of the year	1,330,013	592,569
Dividend paid during the year	(830,013)	(92,569)
Total comprehensive income for the year	140,984	830,013
Balance at the end of the year	<u>640,984</u>	<u>1,330,013</u>

The notes on pages 11 to 18 form part of these financial statements.

CITY RE LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDING 31 MARCH 2016

	31 Mar 2016	31 Mar 2015
	£	£
CASH FLOW FROM OPERATING ACTIVITIES		
Profit for the year	140,984	830,013
Less interest income	(17,047)	(18,632)
Decrease in unearned premiums	(15,054)	-
Decrease / (increase) in prepaid expenses	70	(490)
(Decrease) / increase in trade and other payables	(19,523)	161,479
Increase / (decrease) in claims reserves	252,421	(310,348)
Net cash inflow from operating activities	341,851	662,022
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	17,047	18,650
Net cash from investing activities	17,047	18,650
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(830,013)	(92,569)
Net cash from financing activities	(830,013)	(92,569)
Net (decrease)/increase in cash and cash equivalents	(471,115)	588,103
Cash and cash equivalents brought forward	4,282,275	3,694,172
Cash and cash equivalents carried forward	3,811,160	4,282,275

The notes on pages 11 to 18 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 MARCH 2016

1. BASIS OF PREPARATION

The company is a limited company, limited by shares and is incorporated in Guernsey. The address of its registered office is PO Box 155, Mill Court, La Charroterie, St Peter Port, Guernsey, GY1 4ET.

The principal activity of the company is to provide reinsurance protection to the RSA Group on the risks associated with the material damage and loss of rent insurance programmes of the City of London property investment portfolio.

The financial statements have been prepared in accordance with the Insurance Law, FRS102 and FRS103. FRS102 and FRS103 are mandatory for accounting periods beginning on or after 1 January 2015. Information on first time adoption of FRS102 is given in Note15.

2. PRINCIPAL ACCOUNTING POLICIES

These financial statements are prepared under the historical cost convention.

The preparation of financial statements in compliance with FRS102 and FRS103 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the accounting policies.

(a) Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

(b) Gross premiums written

Gross premiums written in respect of the cover for providing reinsurance protection to the RSA group on the risks associated with material damage and loss of rent insurance programmes of the City of London portfolio.

(c) Unearned premiums

Unearned premium represents the proportion of premium which has been pre-paid for the following financial period.

(d) Claims

Claims are accounted for on an accruals basis. Provisions made for the cost of outstanding claims reported at the reporting date are included in the outstanding loss reserve. The estimate for the cost of claims incurred but not reported ("IBNR") is included in the IBNR reserve. The current IBNR is in the sum of £250,000 representing one maximum loss to the Company and is determined by the Board of Directors using both historical data and any data available at the time of preparation of the Financial Statements.

(e) Commission

Fronting fees calculated as 2.5% of gross premiums written is payable to Royal and Sun Alliance PLC and are earned over the related policy period.

Profit commission calculated as 1.5% of the profit before tax in the financial period is payable to JLT Insurance Management (Guernsey) Limited.

(f) Interest income

Interest income is accounted for on an accruals basis.

(g) Cash and cash equivalents

Cash and cash equivalents comprise bank balances, short term fixed deposits and short term notice accounts.

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDING 31 MARCH 2016

3. FINANCIAL INSTRUMENTS

Financial Assets

Basic financial assets, including debtors and cash and cash equivalents, are initially recognised at transaction price, and are subsequently carried at amortised cost.

Debtors arising out of insurance operations

Debtors arising out of insurance operations consist of balances due from the insurer in respect of outstanding premiums.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. None of the financial assets at the year end are deemed to be impaired.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Financial liabilities

All financial liabilities, are initially recognised at transaction price and are subsequently carried at amortised cost.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

The Company does not hold or issue derivative financial instruments.

Creditors arising out of insurance operations

Creditors arising out of insurance operations consist of balances due to the insurer in respect of outstanding claims payable.

Offsetting

Financial assets and liabilities are not offset in the accounts and the gross amounts are shown in the financial statements.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Company accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of the applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDING 31 MARCH 2016

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

Outstanding loss reserves.

The estimation of the ultimate liability arising from claims made under insurance contracts is the Company's most critical accounting estimate. The carrying amount of the reserve is £1,546,403 (2015: £1,293,982). There are several sources of uncertainty that need to be considered in the estimate of the liability that the Company will ultimately pay for such claims. The level of provision has been set on the basis of the information that is currently available, including potential outstanding loss advices, experience of development of similar claims and on the advice of expert loss adjusters where appropriate.

The most significant assumptions made relate to the level of future claims, the level of future claims settlements and the legal interpretation of insurance policies. Whilst the directors consider that the gross provision for claims are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided. Adjustments to the amounts of provision are reflected in the financial statements for the period in which the adjustments are made.

5. TAXATION

The Company is taxed at the standard rate of income tax for Guernsey companies of 0%.

6. ADMINISTRATIVE EXPENSES

	31 Mar 2016	31 Mar 2015
	£	£
Management fees	52,038	51,536
Audit fees	5,206	5,500
Directors' fees	7,521	7,500
Consultancy fees	10,549	400
Company registration fees	5,808	5,742
Directors and officers premium	1,195	2,624
Sundry expenses	1,148	1,676
	<u>83,465</u>	<u>74,978</u>

7. SHARE CAPITAL

	31 Mar 2016	31 Mar 2015
	£	£
ISSUED SHARE CAPITAL		
500,000 GBP1 Ordinary Shares	<u>500,000</u>	<u>500,000</u>

Dividends

Shareholders of ordinary shares are entitled to receive dividends declared by the Company.

Capital

On winding up of the assets of the Company, the holder of ordinary shares is entitled to repayment of the nominal amount paid thereon. Any surplus is attributable to holders of ordinary shares pro rata in proportion to the number of ordinary shares.

Voting rights

Ordinary shares carry one vote per shareholder at general meetings.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDING 31 MARCH 2016

8. TRADE AND OTHER PAYABLES	31 Mar 2016	31 Mar 2015
	£	£
Claims payable	145,496	180,602
Profit commission	2,147	12,640
Insurance reduction payable	15,880	-
Audit fees	5,675	5,500
Directors and officers premium	26	26
Consultancy fees	10,400	400
Directors' fees	2,096	2,075
	<u>181,720</u>	<u>201,243</u>

9. CLAIMS RESERVES	31 Mar 2016	31 Mar 2015
	£	£
IBNR reserve	250,000	250,000
Outstanding loss reserves	1,546,403	1,293,982
	<u>1,796,403</u>	<u>1,543,982</u>

10. FINANCIAL RISK MANAGEMENT

The Company is exposed to a range of financial risks through its financial assets, financial liabilities and policyholder liabilities. The most important components of these financial risks are market risk (interest rate risk), credit risk, currency risk and liquidity risk. The risk management policies employed by the Company to manage these risks are discussed below.

a) Credit Risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Company manages the levels of credit risk it accepts by limiting its exposure to a single counterparty, or groups of counterparty. Such risks are subject to regular review by the Board of Directors.

The assets bearing credit risk and their associated credit ratings are shown below:

	31 Mar 2016	31 Mar 2015
	£	£
<i>Assets bearing credit risk</i>		
Cash and cash equivalents	3,811,160	4,282,275
<i>By Rating</i>		
A rated	3,811,160	4,282,275

No financial assets are past due or impaired at the reporting date and management expects no significant losses from non-performance by these counterparties.

b) Liquidity risk

Liquidity risk is the risk that the company cannot meet its obligations associated with financial liabilities as they fall due. The company has adopted an appropriate liquidity risk management framework for the management of the company's liquidity requirements. The company manages liquidity risk by maintaining banking facilities and monitoring premiums due and by continuously monitoring the forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The company is exposed to liquidity risk arising from its insurance activities. Liquidity management ensures that the company has sufficient access to funds necessary to cover insurance liabilities and expenses. All financial liabilities are due to be settled within the next twelve months.

There were no significant changes to the company's liquidity risk exposure in the financial year nor the objectives, policies and processes for managing liquidity risk.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDING 31 MARCH 2016

10. FINANCIAL RISK MANAGEMENT CONTINUED

c) Interest rate risk

The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its bank deposits, cash and cash equivalents and cash flows. At 31 March 2016 the Company had various interest bearing accounts bearing interest rates ranging from 0.39% to 0.65% (2015: 0.39% to 0.55%) all maturing within 12 months of the balance sheet date.

During the year to 31 March 2016, if Bank of England interest rates had been 50 basis points higher/ lower with all other variables held constant, profit for the year would have been increased / decreased by £17,047 (2015: £18,632), as a result of interest received on investments and cash and cash equivalents.

The following are the underlying assumptions made in the model used to calculate the effect on profits and other components of equity:

- The bank and investment balances at 31 March 2016 formed the basis of the calculation.
- A 50 basis point charge on these principal balances reflects the absolute increase or decrease in profit that could arise with such an interest rate movement. The directors have chosen the estimate of 50 basis points as this reflects the directors best estimate of the change in interest rates which could reasonably be expected to occur.

d) Currency risk

The company manages their foreign exchange risk by currently ensuring all commercial transactions or recognised assets and liabilities are denominated in its functional currency.

e) Concentration risk

Concentration risk arises when a number of counterparties are engaged in similar business activities or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. The Board does not feel that the company is exposed to concentration risk at the current time.

11. MANAGEMENT OF INSURANCE RISK

The principal risk that the Company faces under its insurance contracts is that the actual claims are significantly different to the amounts included in the technical provisions. This could occur because the frequency or severity of claims and benefits are greater or lower than estimated. Insurance events are fortuitous and the actual number and amounts of claims may vary from year to year from the estimate established.

The Company provides re-insurance protection to the RSA Group on the risks associated with material damage and loss of rent for the City of London's property portfolio. The re-insurance protection is limited to a maximum liability of £250,000 for each and every loss with an aggregate limited equal to £250,000 in excess of net written premium.

All risks covered under the insurance policy are within the United Kingdom.

Claims development tables

The claims development table below shows claims reported per underwriting year in the first accounting period (effectively 25 December to 31 March) and subsequent reporting periods.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDING 31 MARCH 2016

11. MANAGEMENT OF INSURANCE RISK CONTINUED

Claims development table at 31 March 2016

<u>Underwriting</u> <u>year</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
accounting period end	112,985	159,440	427,179	201,400	188,840	1,089,844
one year later	858,137	1,412,020	1,361,059	1,350,481	-	4,981,697
two years later	730,153	1,099,579	1,411,703	-	-	3,241,435
three years later	704,362	1,114,079	-	-	-	1,818,441
four years later	679,622	-	-	-	-	679,622
Current estimate of cumulative claims	679,622	1,114,079	1,411,703	1,350,481	188,840	4,744,725
Cumulative payments to date	(679,622)	(1,098,808)	(814,016)	(604,815)	(1,061)	(3,198,322)
Statement of Financial Position	-	15,271	597,687	745,666	187,779	1,546,403

The Company has currently provided for an Incurred but not Reported Reserve up to the value of one maximum claim being GBP 250,000 which has been agreed by the Board.

12. CAPITAL MANAGEMENT

The Company defines capital in accordance with regulations prescribed by the Guernsey Financial Services Commission ("GFSC"). The Company's capital consists of:-

	2016 GBP	2015 GBP
Share Capital	500,000	500,000
Retained earnings	140,984	830,013
Capital to meet Minimum Capital Requirements	640,984	1,330,013
Adjustments	-	-
Capital to meet Prescribed Capital Requirements	640,984	1,330,013

Its objectives when managing capital are:

- i) to comply with legal and statutory obligations and maintain capital resources commensurate with the nature, scale and risk profile of its business;
- ii) to provide a framework for monitoring the financial and capital position of the Company, including the procedures to be followed during periods of general financial distress, either due to internal or external events;
- iii) to safeguard the Company's ability to continue as a going concern.

Under the rules prescribed by the GFSC, the Company must at all times maintain assets of a value sufficient to cover its liabilities, including liabilities arising under or in connection with contracts of insurance and that there is a suitable matching of assets and liabilities.

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDING 31 MARCH 2016

12. CAPITAL MANAGEMENT CONTINUED

Effective from 1 May 2015 the Guernsey solvency rules have changed. Under the new regulations, the GFSC rules require the Company to maintain a surplus of admissible assets over its liabilities which is at all times at least higher than both its MCR and PCR. The MCR represents the point at which the regulator would invoke the strongest action, while the PCR is the level of capital above which no action is required, with varying degree of action required if capital lies between MCR and PCR.

As at 31 March 2016, the Company held a surplus of £276,794 above its MCR requirement of £364,190 and a surplus of £126,715 above its PCR requirement of £514,269.

Management information to monitor the Company's capital requirements and solvency position is produced and presented to the Board on a regular basis ensuring that the Company meets its capital requirements at all times.

The Company has complied with the GFSC imposed rules and guidance in respect of capital, in both 2016 and 2015.

13. TECHNICAL PROVISIONS

Technical provisions arising from insurance contracts are included in these financial statements as follows:

	2016 GBP	2015 GBP
Gross		
Unearned premium reserve	1,238,514	1,253,866
IBNR provision	250,000	250,000
Outstanding loss reserves	1,546,403	1,293,982
Total technical provisions, gross	<u>3,034,917</u>	<u>2,797,848</u>

Provisions for claims reported are estimated using the latest available information which comprises up to date reports from the claims handlers, loss adjusters and fronting insurers, on that basis there are no significant assumptions impacting on the level of the claims other than the assumption that the information used is complete and accurate.

14. RELATED PARTY DISCLOSURE

The parent Company and ultimate controlling party which has interests in 100% (2015: 100%) of the issued share capital of the company is the City of London Corporation, the municipal body of the City of London, acting in its City's Cash capacity.

Key management personnel of the company

Key management personnel include all directors who together have authority and responsibility for planning, directing and controlling the activities of the company. The total compensation paid to key management personnel for services provided to the company was £7,521 (2015: £7,500).

Entities that provide key management personnel services to the company

During the year management fees of £52,038 (2015: £51,536) were paid to JLI Insurance Management (Guernsey) Limited, regarded as a related party by virtue of the fact that Mr S Le Prevost is a director of both companies.

Profit commission calculated as 1.5% of the profit before tax in the financial year is also payable to the insurance manager JLT Insurance Management (Guernsey) Limited. An amount of £2,147 is payable as at 31 March 2016. (2015: £12,640)

CITY RE LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDING 31 MARCH 2016

15. FIRST TIME ADOPTION OF FRS 102 AND FRS 103

The Company has adopted FRS 102 and FRS 103. There have been no adjustments or restatements of the results or financial position due to the transition.

The Company has presented comparative information on this basis and therefore the company's date of transition was 1 April 2014. This is the first set of financial statements prepared under FRS 102 and FRS 103.

16. POST BALANCE SHEET EVENT

Following a Board meeting on the 20th June 2016, the directors declared a dividend in the sum of £140,984 relating to the profit for the year.