THE WREN INSURANCE ASSOCIATION LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
Year ended 30 June 2016

2016

Wren

CONTENTS

2016

The Wren Insurance Association Limited ('Wren' or 'the Association') is a mutual insurance company which provides professional indemnity insurance to a select group of architectural practices. Founded in 1987, it currently has 60 Members.

The main strategic objectives of the Association are to:

- Continue to provide Members with control over an important aspect of their business;
- Maintain appropriate cover;
- Maintain stability in the cost of cover;
- Improve standards and manage risk within Member practices;
- Deliver cost-effective insurance in the long-term.

The Association's strategy is reviewed periodically by the Board and will next be reviewed during the course of 2016/17.

Finance and Underwriting

The Association's financial statements for the year ended 30 June 2016 show a rather unusual result, which reflects the Board's decision to begin to wind up the long-standing reinsurance arrangement with Citadel Reinsurance Company Limited. The main objective of this course of action is to replace the Citadel reinsurance with a 'reinsurance reserve' on the balance sheet, which will be available in the same way as the Citadel arrangement to respond to individual large claims and claims in the aggregate, but with the added advantage of generating a higher investment return for the Association.

As a first step, during the year the Association negotiated with Citadel a commutation of all policy years up to and including 2009/10. This resulted in a payment to the Association of just under £10.1 million, which is included in the accounts as a paid reinsurance recovery. The reinsurance commutation has a distorting effect on the technical account, pushing claims incurred into a positive position. However, this should not disguise the fact that the underlying underwriting performance for the year was very strong, with claims in the 2015/16 policy year at a very low level and improvements to the claims position of many earlier policy years.

The renewal at 1 July 2015 saw general rates again held, but many firms increased their levels of fee income and as a result, the total call income of the Association was up by around 3.5% at £10.2 million. With the Association remaining in a strong financial position, in March 2016 the Board was able to approve a return of call of £2.0 million from the 2008/09 policy year.

Reinsurance costs were £345,000 lower than the previous year despite the higher premium income (to which reinsurance costs are proportionate), reflecting a rate reduction achieved at the renewal of the main reinsurance contract. The premium paid to Citadel was also lower.

The investment income credited to the policy year, which is based on the expected longer-term rate of return, was at a similar level to the previous year, at just under £1.9 million.

As noted above, claims incurred for the year is a positive figure of £14.1 million. This reflects the £10.1 million reinsurance commutation and the significant amounts of surplus claims provisions which were released in the year, as a result of the last three policy years having benefited from a very low level of claims notifications and in particular, fewer large claims than average.

Gross claims payments in the year were £4.0 million, but both the gross provision for claims and the provision for reinsurance recoveries moved in the Association's favour. These movements in claims reserves are mirrored in the Association's balance sheet, which shows that the provision for gross outstanding claims fell from £26.9 million to £22.6 million, while the reinsures' share of these gross provisions rose from £4.9 million to £8.4 million. The increase in projected reinsurance recoveries at the year end recognises the lower attachment point agreed with Citadel for the aggregate reinsurance, rather than any deterioration in the underlying claims position.

Operating costs were 6% higher than in 2015 at £4.2 million. The higher costs in part result from the Association's decision to absorb the increase in Insurance Premium Tax that was introduced during the year, rather than passing it on to Members, and additional fees relating to Solvency II implementation and the investment strategy review. The balance on the underwriting (technical) account was a surplus of £18.4 million.

The actual investment return achieved for the year, at £1.9 million, was marginally higher than the longer-term rate, which resulted in a transfer to the investment reserve of £26,978. More detailed commentary on the investment performance is set out in the investment report below.

The Association's investments grew by just under £12.0 million to £61.2 million, attributable to the £1.9 million of investment return generated plus the transfer of £10.1 million of new money into the portfolio.

As part of its policy year review carried out in March 2016, the Board agreed to make a transfer of £0.5 million from the income and expenditure account in the 2008/09 policy year to the general reserve. This reserve has therefore grown to stand at £13.3 million at 30 June 2016. In addition, there was a transfer of £12.8 million to the newly created reinsurance reserve, largely from the proceeds of the reinsurance commutation payment referred to above. The total free reserves of the Association, excluding the reinsurance reserve, have risen from £28.4 million to £33.8 million over the course of the year to 30 June 2016; including the new reserve, they stand at £46.6 million and on that basis, the Association's overall financial position remains very strong.

The Board also agreed in March 2016 that there was no necessity for a general rate increase at 1 July 2016.

Investments

At the start of the year investors' concerns focussed on the slowing rate of economic growth in China and at the end of the year the focus had moved to the economic impact of the Brexit vote. Over the course of the 12 months sterling depreciated, bond yields fell and stock markets were broadly flat in local currency terms.

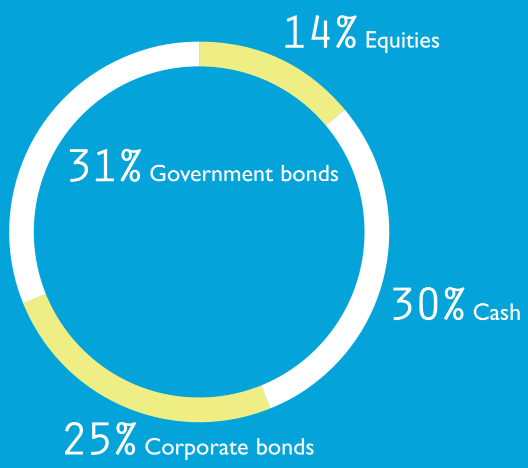
China's contribution to global economic growth is substantial and its impact on stock markets considerable. Investors generally applaud China's attempt to deflate its economic bubble in the interests of long term sustainability, but the short term implications on asset prices at times can be too much to bear. Following extreme stock market volatility in August 2015 and January 2016 the Chinese authorities relaxed domestic financial conditions and attempted to devalue the Renminbi in order to ease investors' concerns. This appears to have worked for now.

For the second consecutive year the oil price moved sharply: firstly halving from a little over $60 a barrel at the start of the year to under $30 a barrel, before rallying towards $50. Lower global demand and high oil stocks justified a fall, but the determination of the largest Middle Eastern oil producers to drive out new, more expensive, methods of exploration resulted in the price of oil testing new lows. There are as many winners as there are losers from a lower oil price, but the major oil companies would not be able to sustain high dividend payments with oil much below $50 a barrel, which would have big implications for income hungry investors.

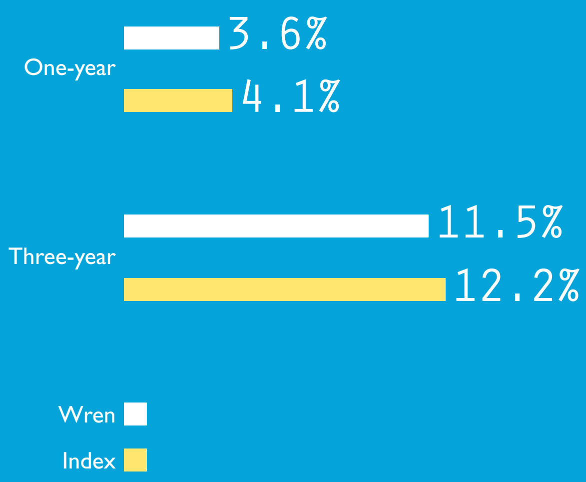
Global economic growth expectations reduced throughout the period, but at a little over 3% the economic wheels continued to turn. Of the developed economies, the US continues to have the most attractive profile with low unemployment offsetting the stronger US$. The UK's growth rate was broadly at the trend level and Europe benefitted from monetary and fiscal stimulus and the weak euro. In Q4 2015 US interest rates were raised for the first time since the financial crisis and although further rate rises failed to materialise, their intentions are clear.

The Brexit vote at the very end of Wren's financial year was a decisive moment in British and European history. It created a new uncertainty for the world economy that caused investors to adjust down sharply their expectations for UK growth and interest rates. So far there appears to be a remarkable level of calm. This is not an economic 'Lehman's moment' when the world stops trading for a

Investment holdings at 30 June 2016



Investment performance compared to benchmark



period of time, but there are a sufficient number of new 'unknowns' to result in households and businesses being more cautious and foreign investment being delayed, all of which must impact the economic progress. The Bank of England and central banks around the world know this and are ready to counter any negative effects, but there is only so much that can be done.

Sterling weakened by circa 17% against the US$ and euro over the 12 months, with more than half of this occurring after the Brexit vote. A floating rate currency provides a crucial economic safety valve and the weakness provides a boost to exports and hopefully foreign direct investment.

The UK stock market was broadly flat during the year. The FTSE 100 started and ended the year at 6500, but during the course of the year fell to as little as 5500. Small and mid-sized companies did not fare so well lacking the international sales boost from sterling's weakness.

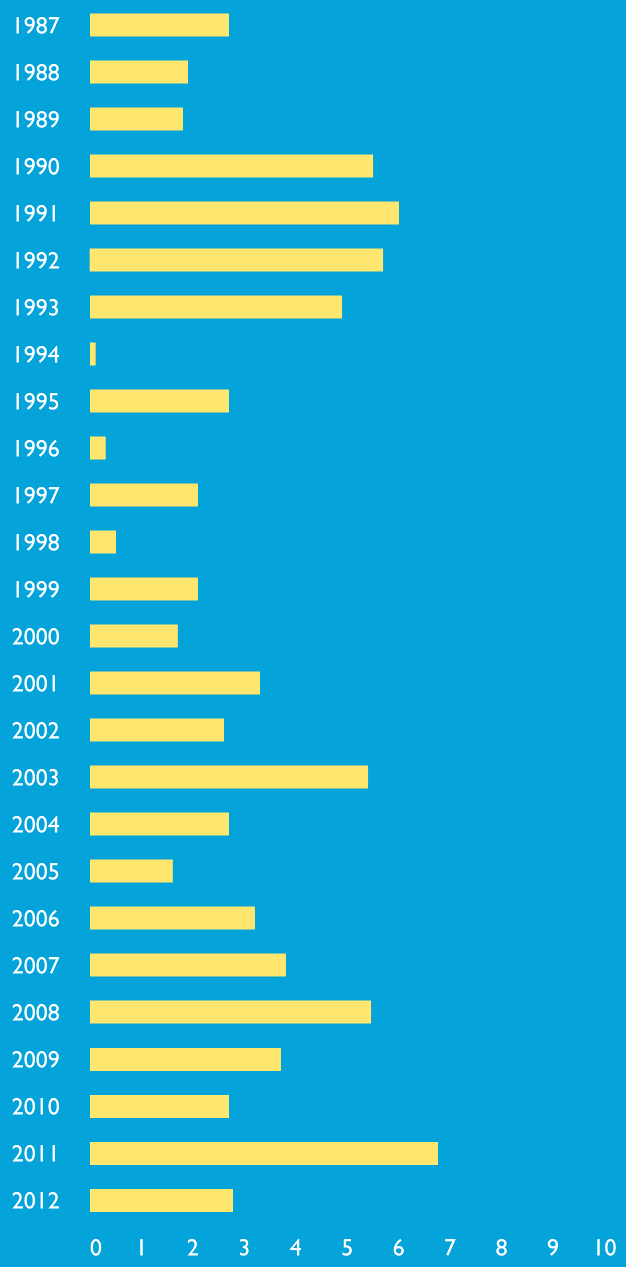
Bond yields fell to reflect subdued growth and lower interest rate expectations. In the UK the yield on a 10 year government bond fell from 2% at the start of the year to 0.9% at the end of the year.

The Wren's portfolio returned +3.6% for the year to 30 June 2016 compared to the benchmark return of +4.1%. Over the rolling three year period, the portfolio returned an annualised return of +3.7% versus +3.9% from the benchmark. Global equities provided the best returns over both periods, boosted by sterling's devaluation, but the return from UK equities was disappointing. Fixed income returned just over 5% for the year which was a little higher than the 3 year average. Corporate bonds provided the best returns over the 3 years returning 5.2% per annum.

Claims

The number of matters notified to the Association over the last policy year has remained about the same as last year, and down on previous years: a fact that may reflect the fall in the number of projects in which Members were involved during the recession. However, given the significant increase in construction activity since the recession, it may also indicate that, when the construction industry is busy, pursuit of claims is not a priority. Most notifications continue to be made in relation to UK projects, although a number of notifications have been made in relation to overseas projects. As far as existing notifications are concerned, the year to 30 June 2016 saw the settlement of a number of large and/or longstanding claims on good terms, many of them as a result of mediation.

Claims before reinsurance recoveries £m



(Data in 2013, 2014 and 2015 policy years is insufficient to make accurate projections)

Contract review
Members began the policy year by bidding for, and in many cases securing, an increased number of instructions in a wide variety of sectors, both overseas and throughout the UK. The position then slowed, particularly in the UK residential sector, both in the run up to the EU Referendum and its immediate aftermath, although the signs are that work is beginning to pick up again. Sub-consultants demanding low caps on liability are becoming increasingly prevalent, despite the fact that they often carry PII cover well in excess of the size of the cap requested. The role of the Principal Designer introduced by the new CDM Regulations in April 2015 has continued to be a challenge, with many appointments imposing obligations far greater than the statutory requirements of the CDM Regulations. The Members themselves, however, are gaining a better understanding of the role, with a number beginning to undertake it themselves, rather than rely on a sub-consultant Principal Designer Advisor.

Risk management
The most recent programme of Wren risk management reviews of Member offices in the UK and overseas commenced in March 2015 and concluded in August 2016. The next programme will commence in the Autumn of 2016. Updates and additions to the Wren Risk Management Guidelines continue to be published on the Wren website to reflect the most recent developments in the construction industry, new or pending legislation (notably, the latest CDM Regulations) and Members' claims experience.

Rules of the Association
A number of amendments were made with effect from 1 July 2016 in order to improve the drafting and clarity of the Rules. A new Rule has been introduced setting out the Association's position with regard to civil penal awards, and several Rules have been updated to reflect the provisions of the Insurance Act 2015. The definition of Architectural Business has been extended to include reference to the role of Principal Designer as introduced under the CDM Regulations 2015.

Wren Scholarships
Following the founding of the scholarship by the Association in 2013, a further five scholarships of £5,000 each were awarded in the summer of 2015 to Ruxandra Maria Gruioniu (University College London), Lilly Ingleby (University of Sheffield), Johnny Lui (Royal College of Art), Alexander Mills (De Montfort University) and Charles Proctor (Royal College of Art). As before, the award winners were given the opportunity to be individually mentored by Members of the Association, whilst a number of past winners have gone on to be offered jobs by Wren Members. Scholars 'old and new' had the opportunity to meet each other at the annual Members' forum in April 2016.

The directors have pleasure in presenting their report together with the audited financial statements for the year to 30 June 2016.

The principal activity of the Association is the insurance of the professional indemnity risks of architects and other building design professionals. The strategic report on the preceding pages provides a summary of the principal matters affecting the Association's business during the year.

The names of the directors are shown on page 24. At the annual general meeting on 23 March 2016, Messrs C Bennie, L E Edwards, H H Phillips and R J H Pullen retired by rotation. Mr Bennie was reappointed. Messrs Edwards, Phillips and Pullen, having each completed the agreed maximum continuous term as a director, did not stand for re-election. Messrs J J Hall, A Poole and G Tidmarsh were appointed to fill the vacancies on the Board.

Mr A J Niven retired from the Board on 28 January 2016 and the Board agreed to appoint Mr S C G Scriven, subject to regulatory approval. This approval was received on 15 April 2016. A resolution proposing the reappointment of Mr Scriven will be put to Members at the Annual General Meeting in 2017.

Directors' Indemnity Insurance

The Association purchases directors' and officers' indemnity insurance in respect of all the Association's directors.

Audit

So far as each of the persons who are directors at the time of this report are aware, there is no relevant audit information of which the Association's auditors are unaware and the directors confirm that they have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Association's auditors are aware of that information.

Moore Stephens LLP have indicated their willingness to continue as the Association's auditors and, subject to no objections being received, will be deemed to be reappointed in accordance with Section 487 of the Companies Act 2006.

A D Stanford Chairman
14 September 2016

2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the strategic report, statutory directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Association and of the surplus or deficit of the Association 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Association will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Association's transactions and disclose with reasonable accuracy at any time the financial position of the Association and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Association and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

To the Members of the Wren Insurance Association Limited

We have audited the financial statements of The Wren Insurance Association Limited for the year ended 30 June 2016 which are set out on pages 8 to 23. 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).

This report is made solely to the Association's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Association'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 Association and the Association'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 set out on page 6, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Association's affairs as at 30 June 2016 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Thomas Reed
(Senior Statutory Auditor)
for and on behalf of
Moore Stephens LLP
Statutory Auditor
150 Aldersgate Street
London EC1A 4AB

19 September 2016

INCOME AND EXPENDITURE ACCOUNT

for the year ended 30 June 2016

Technical account – general business	Note		2016 £		2015 £
Earned premiums, net of reinsurance					
Calls and premiums	2	**10,207,148**		9,874,393	
Return calls	2	**(2,014,861)**		(1,470,315)	
			8,192,287		8,404,078
Reinsurance premiums			**(1,574,275)**		(1,919,371)
			6,618,012		6,484,707
Allocated investment return transferred from the non-technical account			**1,876,414**		1,961,497
			8,494,426		8,446,204
Claims paid					
Gross amount		**(4,009,860)**		(1,768,324)	
Reinsurers' share		**10,318,647**		15,093	
		6,308,787		(1,753,231)	
Change in the provision for claims					
Gross amount		**4,318,208**		1,505,217	
Reinsurers' share		**3,512,924**		(4,181,439)	
		7,831,132		(2,676,222)	
Claims incurred net of reinsurance			**14,139,919**		(4,429,453)
Net operating expenses	4		**(4,209,580)**		(3,962,082)
Balance on the technical account			**18,424,765**		54,669

Non-technical account			
Balance on the technical account		**18,424,765**	54,669
Investment income	5	**1,909,009**	1,385,909
Allocated investment return transferred to the general business technical account	6	**(1,876,414)**	(1,961,497)
Net surplus/(deficit) before taxation		**18,457,360**	(520,919)
Taxation	7	**(328,700)**	(254,338)
Net surplus/(deficit) after taxation		**18,128,660**	(775,257)
Surplus at 30 June 2015		**6,994,491**	8,292,900
Net transfer (to)/from investment reserve	6	**(26,978)**	476,848
Net transfer to general reserve		**(500,000)**	(1,000,000)
Transfer to Reinsurance reserve		**(12,774,632)**	–
Surplus at 30 June 2016		**11,821,541**	6,994,491

There are no recognised gains and losses other than those included in the income and expenditure account.
All amounts are derived from continuing operations.

The notes on pages 12 to 23 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION
as at 30 June 2016

Assets	Note	2016 £	2015 £
Financial investments	8	**61,168,237**	49,248,738
Reinsurers' share of technical provisions			
Claims outstanding	9	**8,432,725**	4,919,801
Debtors			
Reinsurance operations		**237,382**	15,093
Direct insurance operations – Members		**36,259**	14,752
Prepayment		**30,876**	25,000
Cash at bank		**2,029,672**	2,877,087
Accrued income		**142,261**	138,061
		72,077,412	57,238,532

Liabilities		
Capital and reserves		
Investment reserve	**8,732,297**	8,705,319
General reserve	**13,250,000**	12,750,000
Reinsurance reserve	**12,774,632**	–
Income and expenditure account	**11,821,541**	6,994,491
	46,578,470	28,449,810
Technical provisions		
Gross outstanding claims	**22,581,829**	26,900,037
Creditors		
Direct insurance operations – Members	**2,149,322**	1,486,930
Reinsurance operations	**176,221**	113,794
Taxation	**293,534**	104,609
Other creditors	**298,036**	183,352
	25,498,942	28,788,722
	72,077,412	57,238,532

Approved by the Board on 14 September 2016

A D Stanford Director
H O Wells Director

J P Rodgers Wren Managers

The notes on pages 12 to 23 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 30 June 2016

Cash flows from operating activities	2016 £	2015 £
Net surplus/(deficit) before taxation	**18,457,360**	(520,919)
Adjustments for:		
Change in provisions for claims	**(7,831,132)**	2,676,222
(Increase)/decrease in insurance and other debtors	**(253,872)**	4,536,282
Increase/(decrease) in insurance and other creditors	**839,503**	(904,204)
Investment Income	**(1,909,009)**	(1,385,909)
Cash from operations	**9,302,850**	4,401,472
Income taxes paid	**(139,775)**	(315,127)
Net cash generated from operating activities	**9,163,075**	4,086,345

Cash flows from investing activities		
Purchase of equity shares	**(2,078,803)**	(2,327,310)
Purchase of fixed interest investments	**(3,385,542)**	(4,459,446)
Sale of equity shares	**2,066,214**	2,319,876
Sale of fixed interest investments	**3,283,054**	3,191,758
Net change to deposits with credit institutions	**(10,617,615)**	(3,040,214)
Income from equity investments	**186,545**	202,635
Income from fixed income investments	**666,321**	737,554
Bank and other cash	**59,637**	27,112
Investment management expenses	**(190,301)**	(156,239)
Net cash from investing activities	**(10,010,490)**	(3,504,274)

Net (decrease)/increase in cash at bank	**(847,415)**	582,071
Cash at bank at the beginning of the financial year	**2,877,087**	2,295,016
Cash at bank at the end of the financial year	**2,029,672**	2,877,087

The notes on pages 12 to 23 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

as at 30 June 2016

	Investment reserve £	General reserve £	Reinsurance reserve £	Income and expenditure £	Total £
At 30 June 2014	9,182,167	11,750,000	–	8,292,900	29,225,067
Deficit for the financial year	–	–	–	(775,257)	(775,257)
Transfer from investment reserve	(476,848)	–	–	476,848	–
Transfer to general reserve	–	1,000,000	–	(1,000,000)	–
At 30 June 2015	8,705,319	12,750,000	–	6,994,491	28,449,810
Surplus for the financial year	–	–	–	18,128,660	18,128,660
Transfer to investment reserve	26,978	–	–	(26,978)	–
Transfer to general reserve	–	500,000		(500,000)	–
Transfer to reinsurance reserve	–	–	12,774,632	(12,774,632)	–
At 30 June 2016	**8,732,297**	**13,250,000**	**12,774,632**	**11,821,541**	**46,578,470**

The Association is incorporated as a company limited by guarantee and does not therefore have share capital.

The investment reserve comprises the cumulative net transfers from the income and expenditure account equivalent to the net unallocated return on the Association's investment portfolio.

The general reserve has been established in accordance with Rule 32 of the Association to provide for any unforeseen contingencies, claims, expenses, losses or other outgoings of the Association. Transfers to this reserve are considered upon closure of each policy year. To date the 1987/88 to 2008/09 policy years have been closed.

The reinsurance reserve has been established in accordance with Rule 32 of the Association to meet the cost of any individual claim in excess of a specified attachment point up to the reinsurance attachment point of £3.0m and claims in aggregate above a specified attachment point which are both set annually. The funds held in the reserve are available to meet claims in any open policy year where claims either exceed the agreed excess of loss trigger point or the aggregate trigger point.

1 Accounting policies

Basis of accounting

These Financial Statements have been prepared under the historical cost convention as modified to include investments at market value, in compliance with Part 3 of Schedule 6 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI2008/410) under the Companies Act 2006 and in accordance with applicable accounting standards in the UK. In accordance with Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103), the Association has applied existing accounting policies for insurance contracts. The Regulations require the use of the term 'Profit and Loss Account' as a heading. The Statutory 'Profit and Loss Account' is replaced by an 'Income and Expenditure Account' in these financial statements consistent with the mutual status of the Association.

The directors have a reasonable expectation that the Association has adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Statement of Compliance

These financial statements have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, 'The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland' ('FRS 102'), Financial Reporting Standard 103, 'Insurance Contracts' ('FRS 103') and the Companies Act 2006. Note 12 explains the transition to FRS 102 and 103; there are no material adjustments on adoption of FRS 102 and 103.

Policy year accounting

The Association's business is accounted for on an annual basis. For the purposes of reporting to mutual Members, all transactions, including calls, reinsurance premiums payable, claims and reinsurance recoveries are allocated to the policy year to which they relate. In the case of claims and reinsurance recoveries, the appropriate year is decided by the date on which the claim or the incident giving rise to the potential claim is notified to the Association. Other income and expenditure is allocated to the current policy year except investment returns which are allocated to policy years on the same basis as they are credited to the technical account – general business.

Members remain liable for their rateable proportions of any excess of claims and expenses over income for any open policy year and may, at the discretion of the directors, have returned to them any balance not retained and applied for the purposes of the Association. Underwriting years are closed only when the directors are satisfied that the information on claims payable is sufficiently reliable to enable the outcome of that year to be determined with reasonable accuracy.

The income and expenditure account presents the aggregate of changes during the financial year on all policy years, both open and closed.

Calls and premiums

Calls and premiums are credited to the income and expenditure account as and when charged to Members. Return calls are accounted for when approved by the directors, but credited to the Member's account on renewal as at 1st July.

Outward reinsurance premiums are accounted for in the same period as calls and premiums for the related insurance.

Claims and reinsurance recoveries

Claims incurred include all claims and claims settlement expense payments made during the year and the movement in the provision for outstanding claims.

Reinsurance recoveries and reinstatement premiums are accrued to match the relevant claim amounts that have been charged to the income and expenditure account.

1 Accounting policies (continued)

Investment income

Investment income includes interest and dividends receivable for the year.

Net gains or losses on the disposal of investments (representing the difference between net proceeds and purchase cost) are credited or charged to the income and expenditure account as and when realised. Unrealised gains and losses represent the difference between the valuation of investments at the balance sheet date and their purchase price or previous valuation.

The transfer to the investment reserve represents the difference (net of tax) between the actual investment income for the year and the investment return allocated to the technical account – general business.

Allocation of investment return

An allocation is made from the non-technical account to the technical account – general business in respect of the longer-term investment return on the total investment portfolio, since these investments relate wholly to the technical provisions and Members' funds held for mutually insured risks.

Claims outstanding

The Association underwrites professional liability risks on a 'claims made' basis. Claims outstanding represent the Managers' assessment of the ultimate cost of claims reported at the balance sheet date.

The Association reserves individual claims notified on a 'worst likely outcome' basis. Estimates for the cost of claims are made by legally experienced claims handlers who base their estimates on the information available about the individual claim and experience of similar cases. Where it is not yet possible to make an assessment of the likely outcome of a claim, a statistically derived reserve is applied based on the development of similar notifications in earlier policy years. In addition, IBNER (incurred but not enough reserved) provisions are applied to aggregate outstanding estimates for each policy year using percentages that reflect the stage of development of the policy year.

In the case of policies incepting less than thirty-six months before the balance sheet date, the information available is frequently inadequate to form a reliable basis for case by case estimates. Accordingly, claims reserves are also calculated on the basis of standard actuarial claims projection techniques and stochastic modelling based on historical claims patterns, adjusted for inflation and other variables such as the volume of business transacted by the membership, to predict their potential ultimate cost. The principal assumption underlying this approach is that past experience is a reliable basis for projecting the ultimate cost of claims for more recent years.

Any surplus IBNER provisions will be automatically released once the policies to which they relate have been in existence for longer than thirty-six months. By contrast, in years where it appears to the Managers that the actual claims experience is likely to be worse than the original provisions established, those provisions are increased accordingly.

The provision for outstanding claims is based on information available at the balance sheet date. The majority of claims are settled only after extensive investigation and negotiation, which can take a number of years to complete. Accordingly, the ultimate cost of such claims cannot be known with certainty at the balance sheet date. Subsequent information and events may result in the ultimate liability being greater or less than the amount provided. Any differences between provisions and subsequent settlements are dealt with in the technical account – general business in later years.

The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the Association's most critical accounting estimate. There are several sources of uncertainly that need to be considered in the estimate of the amount that the Association will ultimately pay for such claims. Estimates are made up of the expected ultimate cost of claims, whether reported or unreported, at the end of the reporting period. The estimate of IBNER is generally subject to a greater degree of uncertainty than that for reported claims. In calculating the estimated liability, the Association uses a variety of estimation techniques based upon statistical analyses of historical experience which assumes that past trends can be used to project future developments.

NOTES TO THE FINANCIAL STATEMENTS

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1 Accounting policies (continued)

Critical accounting judgements and estimation uncertainty

The Association makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash equivalents are investments with original maturity of three months or less from the date of acquisition. Functional and presentational currency are both in sterling.

Investments

Financial Investments are shown at current market (bid) value at the balance sheet date.

Acquisition costs

Acquisition costs represent underwriting management costs, renewal of existing Members', negotiation with potential Members and the processing of documentation.

2 Net calls and premiums

	2016 £	2015 £
Advance calls and premiums – current year	**10,207,148**	9,874,393
Returns of call – 2008/09	**(2,014,284)**	–
Returns of call – 2007/08	**(577)**	(1,470,315)
	(2,014,861)	(1,470,315)

3 Movement in prior years' claims provisions

Included within the change in provision for claims is a credit of £14,752,318 (2015 – £750,942) relating to prior years. During the current year a commutation premium amounting to £10,092,996 was received from Citadel to commute all outstanding liabilities relating to all policy years up to and including 2009/10. This explains the material movement when compared to the prior year credit. The balance is made up as follows:

	2016 £	2015 £
Net provision at beginning of year	**21,980,236**	19,304,014
Net receipts/(payments) during the year in respect of these provisions	**6,833,631**	(1,246,512)
Net provision carried forward in respect of claims provided for at the end of the previous year	**(14,061,549)**	(17,306,560)
	14,752,318	750,942

Development claim tables

The development of insurance liabilities provides a measure of the Association's ability to estimate the ultimate value of claims. The top half of the table below illustrates how the Association's estimate of total claims outstanding for each policy year has changed at successive year-ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the statement of financial position.

Insurance claims – gross

Estimate of ultimate claims cost attributable to the policy year.

	2006/07 £	2007/08 £	2008/09 £	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £
End of reporting year	5,900,000	5,500,000	5,000,000	5,000,000	8,980,463	5,000,000	4,280,000	4,280,000	4,662,000	5,227,000
One year later	9,180,646	5,500,000	8,809,548	5,000,000	8,980,463	5,000,000	4,280,000	4,280,000	4,662,000	
Two years later	8,568,366	5,500,000	11,118,298	5,000,000	8,980,463	6,000,000	4,280,000	4,280,000		
Three years later	4,555,458	5,189,904	10,950,154	4,065,930	2,705,610	4,182,227	3,335,462			
Four years later	2,965,370	5,202,536	10,456,219	3,603,492	2,608,461	7,305,725				
Five years later	3,069,538	2,884,158	8,964,480	3,892,431	3,209,393					
Six years later	2,852,901	3,445,975	8,369,111	4,196,723						
Seven years later	2,843,501	3,362,319	5,949,680							
Eight years later	2,843,501	3,903,419								
Nine years later	3,233,501									
Current estimate of ultimate claims	3,233,501	3,903,419	5,949,680	4,196,723	3,209,393	7,305,725	3,335,462	4,280,000	4,662,000	5,227,000
Cumulative payments to date	3,233,501	3,308,287	5,941,320	1,722,123	3,110,393	2,002,922	1,647,627	718,785	45,672	12,444
Liability recognised at the end of the year	–	595,132	8,360	2,474,600	99,000	5,302,803	1,687,835	3,561,215	4,616,328	5,214,556
Total liability relating to the last ten policy years										23,559,829
Other claims liabilities										(978,000)
Total reserve included in the statement of financial position										**22,581,829**

Insurance claims – net

Estimate of ultimate claims cost attributable to the policy year.

	2006/07 £	2007/08 £	2008/09 £	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £	2015/16 £
End of reporting year	3,600,000	3,000,000	3,000,000	3,000,000	4,000,000	4,000,000	4,280,000	4,280,000	4,662,000	100,000
One year later	3,600,000	3,000,000	3,000,000	3,000,000	4,000,000	4,000,000	4,280,000	4,280,000	4,662,000	
Two years later	3,600,000	3,000,000	3,000,000	3,000,000	4,000,000	4,000,000	4,280,000	4,280,000		
Three years later	3,233,580	3,000,000	3,000,000	2,575,269	2,395,538	3,879,494	3,335,462			
Four years later	2,081,679	2,887,504	3,000,000	1,848,575	2,298,389	4,000,000				
Five years later	2,185,847	2,655,990	2,439,491	2,067,935	2,661,939					
Six years later	2,359,210	3,000,000	2,178,123	(1,541,200)						
Seven years later	2,349,810	3,000,000	(453,808)							
Eight years later	2,349,810	1,725,093								
Nine years later	2,349,810									
Current estimate of ultimate claims	2,349,810	1,725,093	(453,808)	(1,541,200)	2,661,939	4,000,000	3,335,462	4,280,000	4,662,000	100,000
Cumulative payments to date	2,349,810	1,129,961	(462,168)	(4,015,800)	2,562,939	2,002,922	1,647,627	718,785	45,672	12,444
Liability recognised at the end of the year	–	595,132	8,360	2,474,600	99,000	1,997,078	1,687,835	3,561,215	4,616,328	87,556
Total liability relating to the last ten policy years										15,127,104
Other claims liabilities										(978,000)
Total reserve included in the statement of financial position										**14,149,104**

The negative figures for the estimate of ultimate costs attributable to 2008/09 and 2009/10 are due to the overall gain made from a commuted reinsurance contract.

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4 Net operating expenses

	2016 £	2015 £
Acquisition costs	**475,800**	503,300
Administrative expenses	**3,733,780**	3,458,782
	4,209,580	3,962,082

Acquisition costs represent the management cost of underwriting, including the renewal of the entry of existing Members, negotiations with potential Members and the processing of entry documentation.

Included in administrative expenses are:
- Risk management fees of £670,000 (2015 – £670,000) payable to the Managers in respect of the conduct of the Association's risk management programme.
- Directors' remuneration of £86,423 (2015 – £89,949).
- Auditors' remuneration of £30,250 (2015 – 26,500). In addition to their audit fee, Moore Stephens LLP were paid £6,930 (2015 – £6,930) in respect of taxation services.

5 Net investment income

	2016 £	2015 £
Income from fixed interest investments	**666,321**	737,554
Dividends receivable from equities	**186,545**	202,635
Bank and other interest	**59,637**	27,112
(Loss)/profit on the realisation of investments	**(372,741)**	171,874
Change in unrealised gains on investments	**1,559,548**	402,973
Investment income	**2,099,310**	1,542,148
Investment management expenses	**(190,301)**	(156,239)
Net investment income	**1,909,009**	1,385,909

6 Investment return

	2016 £	2015 £
Allocated investment return	**1,876,414**	1,961,497

Investment income is allocated to the technical account – general business on the basis of longer-term rates of investment return. The longer-term return is based on historical real rates of return and current inflation expectations adjusted for consensus economic and investment forecasts. The return is calculated by applying these rates to the investible assets held during the period on a monthly basis. The following average rates have been used:

	2016	2015
Bonds	**2.75%**	3.30%
Corporate bonds	**4.50%**	5.40%
Equities	**6.10%**	7.30%

A transfer of £26,978 has been made to the investment reserve equivalent to the surplus of actual return against the longer-term return for the year (net of tax) during the current year.

Ten-year comparison of allocated return with actual returns	2016 £	2015 £
Net investment income since 1 July 2006 (2005)	**19,555,003**	19,603,685
Allocated return since 1 July 2006 (2005)	**17,129,480**	16,738,567
Surplus of actual return above allocated return	**2,425,523**	2,865,118

7 Taxation

By virtue of its mutual status the Association is not liable to tax on its insurance operations. It is liable to tax on its income and net gains from investments.

Analysis of charge in period	2016 £	2015 £
UK Corporation Tax	**328,943**	237,748
(Over)/under provision in previous year	**(243)**	16,590
Total tax charge	**328,700**	254,338

7 Taxation (continued)

Factors affecting tax charge for period

The tax assessed for the period is different from the standard rate of Corporation Tax in the UK, 20% (2015 – 20.75%). The differences are explained below:

	2016 £	2015 £
Net surplus/(deficit) before tax	**18,457,360**	(520,919)
Surplus/(deficit) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20%	**3,691,472**	(108,091)
Effects of:		
Non-taxable mutual insurance operations	**(3,325,586)**	387,590
UK dividends not taxable	**(36,943)**	(41,751)
Current tax charge (see above)	**328,943**	237,748

8 Investments

Investments comprise fixed interest investments (UK government securities), corporate bonds, equities and deposits with credit institutions. All fixed interest investments and equities are listed.

	Deposits with credit institutions £	Corporate bond investments £	Fixed interest investments £	Equity investments £	Total £
Purchase of investments	85,404,141	–	3,385,542	2,078,803	90,868,486
Sale of investments	(74,786,526)	–	(3,283,054)	(2,066,214)	(80,135,794)
Realised gains	–	–	(321,446)	(51,295)	(372,741)
Net portfolio investment	10,617,615	–	(218,958)	(38,706)	10,359,951
Unrealised gains	–	521,023	852,988	185,537	1,559,548
Change in value of portfolio	10,617,615	521,023	634,030	146,831	11,919,499
Market value at 1 July 2015	7,780,651	14,789,449	18,273,763	8,404,875	49,248,738
Market value at 30 June 2016	**18,398,266**	**15,310,472**	**18,907,793**	**8,551,706**	**61,168,237**
Cost at 1 July 2015	7,780,651	12,827,897	18,247,442	7,130,223	45,986,213
Cost at 30 June 2016	18,398,266	12,827,897	18,028,484	7,091,517	56,346,164

9 Reinsurers' share of technical provisions

The Association holds security in the form of letters of credit issued by AA or above (Standard & Poor's) rated banking institutions in respect of £8,432,725 of the amounts recoverable on claims paid and outstanding (2015 – £4,919,801).

10 Risk Management

The Association is governed by a Board comprising a non-executive Chairman, 12 non-executive directors and two executive directors, who are also directors of the Managers. There are three sub-committees of the board, the Audit Group, the Remuneration Group and the Nomination Sub-committee.

The Remuneration Group is responsible for making recommendations to the Board on remuneration of the Managers and the directors, and the Audit Group is responsible for reviewing the Association's Annual Report and Financial Statements, Solvency and Financial Condition Report and Regulatory Supervisory Report. The Audit Group receives regular reports from the Association's internal and external auditors and is responsible for approving the audit plan for each year.

The Nomination Sub-Committee consists of the Chairman of the Association, two elected Member directors and one of the Manager directors. The Group meets at least twice a year and is responsible for making recommendations to the Board in respect of suitable candidates for appointment/reappointment as directors of the Association, the performance of directors retiring by rotation and of the Board as a whole, and the appointment and retirement of the Chairman.

Each Member Practice is entitled to nominate one of its partners or directors to attend meetings of the Association's Committee. The Committee meets twice each year. The first meeting is the Members' Forum, to which Representative Members are also invited. This is held in conjunction with the Association's Annual General Meeting in March/April.

10 Risk Management (continued)

The second is the Committee Meeting in September. Directors of the Association are also members of the Committee. At each meeting, reports are given on major decisions made by the Board of Directors . The Committee Meeting and Members' Forum provide an opportunity to exchange views concerning matters relating to the running of the Association as well as on matters of general commercial interest.

The Association is managed on a day-to-day basis by Tindall Riley & Co Ltd (TRC), trading as Wren Managers (the Managers). TRC is a private company owned principally by its directors.

The Association has in place a robust risk management framework that is the responsibility of the Board. The Business Risk Review (BRR) is one of the key elements of this framework. The BRR is a detailed risk register that sets out in detail the risks faced by the Association and the internal controls that operate to mitigate those risks. It is reviewed and updated each year to reflect new risks arising from changes in the Association's business model, and improvements to the control environment.

The Association is focussed on identification and management of potential risks. The key areas of risk to the Association are set out below;

- **Underwriting risk** – incorporating premium and reserving risk
- **Market risk** – incorporating interest rate risk, equity risk, spread risk and currency risk
- **Counterparty risk** – being the risk that a counterparty is unable to pay amounts in full when due
- **Operational risk** – being the risk of failure of internal processes or controls

In order to manage these risks, the Association has continued to develop and review the internal and external governance frameworks through the ORSA process.

The Board and Managers have sought to establish and embed risk management procedures within the business through a Compliance Manual and a risk management framework which considers and logs potential risks and how they are managed. The Board monitors the development and operation of risk management policies and controls in place to mitigate risk through a governance structure which includes an internal audit function (which reports to the Audit Group).

The Association manages the risks relating to the operations of the Association through the Business Risk Review which analyses exposures by degree and magnitude of risk. These risks include underwriting risk, market risk, counterparty risk and operational risk.

10.1 Underwriting risk

The Association adopts a conservative approach to underwriting, characterised by selectivity of membership and prudent rating, allied to commercial awareness.

The terms of cover provided by the Association for professional indemnity risks are fixed by the Rules and therefore individual underwriters have no discretion to vary terms or limits of cover.

There are detailed procedures, documented in the Wren Procedures Manual, for the selection of new Members, which reinforce the risk tolerances in terms of the types of architectural practices that the Association wishes to attract, and their size, type and nature of business undertaken. This maintains the appropriate mix and keeps the balance right. There are also procedures for renewing Members.

Monitoring of compliance with the risk tolerances within underwriting is undertaken by the senior underwriting director, the Chairman of Wren Managers, the board of Wren Managers and the Board of the Association.

Reinsurance

Currently the reinsurance arrangements are split into two types: 'market excess of loss', and 'aggregate'. The market excess of loss programme reduces the impact of individual large losses on the Association, whilst the aggregate reinsurance is used to reduce fluctuation in the claims cost within the Association's retention.

The Association retains the first £3m of every claim (the Association's retention), above which the market excess of loss reinsurance arrangements respond up to the maximum limit of cover. These risk tolerances are set by the Board.

The arrangements with Citadel provide reinsurance aggregate protection of the Association's retention.

10 Risk Management (continued)

Claim reserves

The Association's risk appetite in respect of claims reserves is low, characterised by prudent estimation of individual claims estimating (on a 'worst likely outcome basis') and IBNER reserves set at high levels of confidence.

While there are no formal 'targets' for confidence levels, the usual pattern is for the most recent years to be reserved at a higher level, while more developed years may be reserved at lower levels. These reserving percentiles are monitored each quarter and in particular at each year end and where existing reserves fall short of the level acceptable to the Board, additional IBNER provisions are made.

Prudence is monitored over time by measuring the aggregate surplus of actual technical provisions against the average – this figure should be more or less constant over time. Prudence is also monitored by analysing the release of redundancy from technical provisions in respect of claims from prior years. Any significant variation in the figure year on year are investigated.

The adequacy of reserves is monitored by senior management quarterly; by the directors of Wren Managers, the Audit Group and the Board of the Association at each year end, when a formal report is prepared by the Actuarial Department, setting out the reserves for each policy year and the percentage of confidence for each policy year and an explanation as to how these have moved since the last formal review.

Sensitivity

The Association carries out sensitivity testing on its claim reserves. The results of sensitivity testing are set out below, showing the impact on surplus/deficit before tax, gross and net of reinsurance. The sensitivity analysis assumes that a change in loss ratio is driven by a change in claims incurred.

Increase in loss ratio by 5 percentage points	2016 £	2015 £
Gross	**510,357**	493,720
Net	**330,901**	324,235

A 5 percent decrease in loss ratios would have an equal and opposite effect.

10.2 Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and equity price changes. Market risk arises due to fluctuations in the value of both assets and liabilities.

The investment strategy, which is reviewed periodically, is set by the Board with the assistance of external investment consultants. The strategy reflects the risk appetite of the Association and is designed to maximise return whilst holding risk at a level deemed acceptable. The policy allows the investment managers to invest a proportion of the portfolio in assets which carry a greater risk but a potentially higher return, such as equities, with the majority held in investments such as government bonds, corporate bonds and cash.

The asset allocation of the investment portfolio is monitored by the Managers. Where an asset class exceeds its permitted range, the investment managers will be instructed to carry out a rebalancing exercise, in order to restore the allocation to the correct position.

The most significant currency to which the Association is exposed is sterling, the majority of the portfolio of the investments being held in sterling.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates. Interest rate risk arises primarily from the nature and term of investments held and is managed through the buying and selling of appropriate fixed interest securities of different durations.

The table below shows the effects of a 0.5% increase or decrease in interest on earnings from debt securities:

	2016 £	2015 £
0.5% increase in interest rates	**24,627**	19,428
0.5% decrease in interest rates	**(24,627)**	(19,428)

10 Risk Management (continued)

Equity price sensitivity analysis

The Association is exposed to price risk through its holding of equities. The exposure through equities is limited to a controlled proportion of the overall portfolio. At the year end the holding in equities was 14% (2015 – 17%) of the investment portfolio.

The value of the equity holding at the year end amounted to £8.5m (2015 – £8.4m).

	2016 £	2015 £
0.5% increase in equity price	**427,585**	420,244
0.5% decrease in equity price	**(427,585)**	(420,244)

10.3 Counterparty risks

10.3.1 Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Association.

The key areas where the Association is exposed to credit risk are:
- Amount recoverable from reinsurance contracts
- Amounts due from Members
- Counterparty risk with respect to cash and investments

The Association is exposed to credit risk from a counterparty failing to comply with its obligations under a contract of reinsurance. The market excess of loss reinsurance programme is placed through Willis Towers Watson, a Lloyd's broker. The Association has set selection criteria whereby each reinsurer is required to hold a credit rating of at least 'A-' at the time the contract is made. The reinsurance is placed primarily with Lloyd's underwriters (A rated). The aggregate reinsurance is arranged by the Managers direct with Citadel. This is monitored by the Board.

Amounts due from Members represents premium owing to the Association in respect of insurance business written. The Association manages the risk of Member default through a screening process to ensure the quality of new entrants to the Association and the ability to cancel cover and outstanding claims to Members that fail to settle amounts payable. The Association's policy is that Members should have paid all outstanding calls within 30 days. Amounts written off as bad debt have been minimal over recent years.

The investment policy manages the risk of default by limiting investment in instruments with a credit rating below 'A' whilst also ensuring a diversification of the portfolio by asset, market and counterparty. The policy allows for investment in equities, fixed interest securities, corporate bonds and cash. Within these, materially all investments are at least A rated with many relating to government or supranational bodies.

	2016 £	2015 £
Debt securities	**34,218,265**	33,063,211
Reinsurers' share of technical provisions	**8,432,725**	4,919,805
Reinsurance debtors	**237,382**	15,093
Member and other debtors	**36,259**	14,752
Deposits with credit institutions	**18,398,266**	7,780,651
Cash at bank	**2,029,672**	2,877,087
Total financial assets bearing risk	**63,352,569**	48,670,599
An analysis of this exposure by credit rating is shown below		
AAA	**18,907,797**	18,273,763
AA	**5,671,514**	5,223,303
A	**27,098,044**	14,092,632
BBB+ and below	**11,638,956**	11,066,146
No rating	**36,258**	14,755
Total financial assets bearing risk	**63,352,569**	48,670,599

10 Risk Management (continued)

10.3.2 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations as they fall due at a reasonable cost. The Association has adapted an investment policy which requires the maintenance of significant holdings in cash funds and short term deposits to ensure sufficient funds are available to cover anticipated liabilities and unexpected levels of demand. Short term cash needs are monitored to ensure the most efficient investment of cash balances. The following table provides a maturity analysis of the Association's financial assets representing the date that a contract will mature, amounts are due for payment or the asset could be realised without significant additional cost:

At 30 June 2016	Short term assets £	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
Quoted shares and variable field securities	8,551,706	–	–	–	–	8,551,706
Debt securities and other fixed income securities	16,156,300	832,152	2,631,405	6,998,300	7,600,108	34,218,265
Deposits with credit institutions	18,398,266	–	–	–	–	18,398,266
Reinsurers' share of outstanding claims	–	86	–	4,635,376	3,797,263	8,432,725
Direct insurance operations – Members	36,259	–	–	–	–	36,259
Reinsurance operations	237,382	–	–	–	–	237,382
Taxation	–	–	–	–	–	–
Cash at bank	2,029,672	–	–	–	–	2,029,672
Accrued Interest	142,261	–	–	–	–	142,261
Other debtors and prepayments	30,876	–	–	–	–	30,876
Total assets	**45,582,722**	**832,238**	**2,631,405**	**11,633,676**	**11,397,371**	**72,077,412**

At 30 June 2015						
Quoted shares and variable field securities	8,404,876	–	–	–	–	8,404,876
Debt securities and other fixed income securities	16,087,293	705,845	2,806,620	6,118,654	7,344,798	33,063,210
Deposits with credit institutions	7,780,651	–	–	–	–	7,780,651
Reinsurers' share of outstanding claims	–	50	–	2,704,360	2,215,392	4,919,802
Direct insurance operations – Members	14,752	–	–	–	–	14,752
Reinsurance operations	15,093	–	–	–	–	15,093
Taxation	–	–	–	–	–	–
Other Debtors	–	–	–	–	–	–
Cash at bank	2,877,087	–	–	–	–	2,877,087
Accrued Interest	138,061	–	–	–	–	138,061
Other prepayments and accrued income	25,000	–	–	–	–	25,000
Total assets	**35,342,813**	**705,895**	**2,806,620**	**8,823,014**	**9,560,190**	**57,238,532**

The following is an analysis of the estimated timings of net cash flows by financial liability. The timing of cash flows are based on current estimates and historic trends. The actual timings of cash flows may be materially different from those disclosed below:

At 30 June 2016						
Gross outstanding claims	–	277,797	1,568,194	11,210,072	9,525,766	22,581,829
Direct insurance operations – Members	–	2,149,322	–	–	–	2,149,322
Reinsurance operations	176,221	–	–	–	–	176,221
Taxation	–	293,534	–	–	–	293,534
Other creditors	298,036	–	–	–	–	298,036
Total liabilities	**474,257**	**2,720,653**	**1,568,194**	**11,210,072**	**9,525,766**	**25,498,942**

At 30 June 2015						
Gross outstanding claims	–	330,919	1,868,072	13,353,716	11,347,330	26,900,037
Direct insurance operations – Members	–	1,486,930	–	–	–	1,486,930
Reinsurance operations	113,794	–	–	–	–	113,794
Taxation	–	104,609	–	–	–	104,609
Other creditors	183,352	–	–	–	–	183,352
Total liabilities	**297,146**	**1,922,458**	**1,868,072**	**13,353,716**	**11,347,330**	**28,788,722**

10 Risk Management (continued)

10.4 Operational risk

Operational risks relate to the failure of internal processes, systems or controls due to human or other error. In order to mitigate such risks the Association documents all key processes and controls in a procedures manual. This manual is embedded into the organisation, updated on a continuous basis by senior staff and available to all staff. Compliance with the procedures and controls documented within the manual is audited on a regular basis through quality control checks and the internal audit function which is directed and reviewed by Wren Managers and the Audit Group. A staff handbook contains all key policies that have also been documented.

10.5 Limitation of the sensitivity analyses

The sensitivity analyses in section 10 above shows the impact of a change in one input assumption with other assumptions remaining unchanged. In reality, there is normally correlation between the change in certain assumptions and other factors which would potentially have a significant impact on the effect noted above.

10.6 Capital risk management

The Association maintains an efficient capital structure, consistent with the Association's risk profile. The Association's objective is to maintain sufficient capital to ensure it is able to continue as a going concern and meet regulatory requirements.

The Board's policy is to develop and maintain a strong and flexible capital base in order to meet the capital requirements of the Prudential Regulation Authority ('PRA'). The Solvency Capital Requirement ('SCR') is monitored and updated annually, although if anything significant (such as large claim or investment movements) occurs in the year, it is updated immediately. Other capital measures used by the Board include an Economic Capital Benchmark, which is also monitored against actual capital resources.

In order to monitor capital requirements, the board reviews the capital position on a quarterly basis and the Managers review performance quarterly.

The Association is regulated by the PRA and Financial Conduct Authority (FCA). Throughout the period the Association complied with the regulators' capital requirements.

Under the Individual Capital Assessment (ICA) regime the Association was obliged to assess and maintain the amount of capital required to meet the risks that it faces based on a 99.5 per cent confidence level of solvency over one year or a longer time frame with an equivalent probability. The Solvency II regime has been effective from 1 January 2016 and establishes a new set of EU-wide capital requirements, risk management and disclosure standards. The Association is subject to these regulations. The Association is required to meet an SCR which is calibrated to seek to ensure a 99.5% confidence level of the ability to meet obligations over a 12 month time horizon. The Association calculates its SCR in accordance with the standard formula prescribed in the Solvency II regulations as the assumptions underlying the standard formula are considered to be a good fit for the Association's risk profile. In the period leading up to Solvency II's implementation the Association managed its capital having regard to Solvency II's capital requirements and definition of capital.

10.7 Fair value hierarchy

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the Association applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data.

The classification criteria and their application to the group can be summarised as follows:
• Quoted prices (unadjusted) in active markets for identical assets and liabilities (Level A)
• Inputs other than quoted prices included within Level A that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level B)
• Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level C)

Group	2016 £	2015 £
Level A	**26,949,972**	16,185,527
Level B	**34,218,265**	33,063,211
Level C	**–**	–
	61,168,237	49,248,738

11 Related parties transactions

The Board, comprising up to 13 representatives of the membership of the Association and two Manager nominees, is appointed to oversee the management of the Association on behalf of the Members. However, because of the mutual nature of the Association, all Members, being both insurer and insured, are in effect related parties.

The aggregate of transactions with Members is disclosed in the financial statements and, in the opinion of the directors, there are no individual transactions, or connected transactions, the disclosure of which is necessary for an understanding of the financial statements.

Tindall Riley & Co Limited (trading as Wren Managers) manages the Association and received £4,330,000 (2015 – £4,265,000) in respect of management fees and risk management services.

12 Explanation of transition to FRS 102 and 103

This is the first financial year for which the Association has presented its financial statements under FRS 102 and FRS 103 issued by the Financial Reporting Council. The last financial statements under previous UK GAAP were for the financial year ended 30 June 2015 and the date of transition to FRS 102 was therefore 1 July 2015. Following the adoption of FRS 102 and FRS 103, there have been no material changes to accounting policies in order to comply with these standards and therefore the balance of the capital and reserves account at 30 June 2014 and 30 June 2015 has remained as reported at those dates.

13 Subsequent events

There are no subsequent events which require adjustment or disclosure in the financial statements. The financial statements were authorised for issue by the Board on 14 September 2016.

DIRECTORS

The Wren Insurance Association Limited, Limited by Guarantee

Board of Directors

A D Stanford (Chairman)
C Bennie
J A Greaves
S C Johnson
J J Hall
S J Peat
J T Pickard
A Poole
J P Rich
I M Rudolph
W J Ryan
S C G Scriven
J N E Thompson
G Tidmarsh
H O Wells

Registered Office

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Companies House Number 2054592

Managers

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Auditors

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2016

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