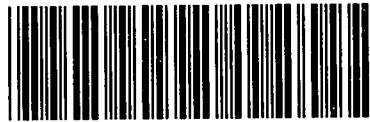


SD Underwriting Limited

Directors' Report and Financial Statements 31 December 2013

Registered number: 06495582

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SD Underwriting Limited

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SD Underwriting Limited

Company Information

Directors

S Dickinson
M Dickinson
Nomina Plc

Company Secretary

Hampden Legal Plc

Registered Office

Hampden House
Great Hampden
Great Missenden
Buckinghamshire
HP16 9RD

Auditors

PKF Littlejohn LLP
Statutory Auditor
1 Westferry Circus
Canary Wharf
London E14 4HD

SD Underwriting Limited

Report of the Directors

The Directors submit their Report together with the Financial Statements of the Company for the year ended 31 December 2013.

Principal activities

The principal activity of the Company is that of a holding company for a number of Lloyd's corporate capital members.

Results and dividends

The results for the year are set out on pages 6 to 7 of the Financial Statements. No interim dividend was paid in the year (2012: £nil). The Directors do not recommend the payment of a final dividend.

Directors

The Directors who served at any time during the year were as follows:

S Dickinson
M Dickinson
Nomina Plc

Directors' responsibilities

The Directors are responsible for preparing the Report of the Directors 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 Group and Parent Company 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 Group and Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable 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 Company will continue in business.

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

Auditors

PKF Littlejohn LLP has signified its willingness to continue in office as auditors.

In the case of each of the persons who are Directors at the time this report is approved, the following applies:

- So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 25 September 2014
and signed on its behalf by:



Hampden Legal Plc
Secretary

SD Underwriting Limited

Strategic Report

Business review and future developments

The Financial Statements incorporate the annual accounting results of the syndicates on which the Group participates for the 2011, 2012 and 2013 years of account, as well as any 2010 and prior run-off years.

Key performance indicators

The directors monitor the performance of the Group by reference to the key performance indicators of the underlying Lloyd's corporate members.

Other performance indicators

As a result of the nature of this Company as the holding company of Lloyd's corporate members the majority of its activities are carried out by the syndicates in which its subsidiaries participate. The Group is not involved directly in the management of the syndicate's activities, including employment of syndicate staff, as these are the responsibility of the relevant managing agent. Each managing agent will also have responsibility for the environmental activities of each syndicate, although by their nature insurers do not produce significant environmental emissions. As a result, the Directors of the Company do not consider it appropriate to monitor and report any performance indicators in relation to staff or environmental matters.

Risk management

The majority of the risks to this Group's future cash flows arise from its participation in the results of Lloyd's syndicates. As detailed below, these risks are mostly managed by the managing agent of the syndicate. This Group's role in managing this risk is limited to selection of syndicate participations and monitoring performance of the syndicates.

Syndicate risks

Each syndicate's activities expose it to a variety of financial and non-financial risks. The managing agent is responsible for managing the syndicate's exposure to these risks and, where possible, introducing controls and procedures that mitigate the effects of the exposure to risk. Each year, the managing agent prepares a Lloyd's Capital Return (LCR) for the syndicate, the purpose of this being to agree capital requirements with Lloyd's based on an agreed assessment of the risks impacting the syndicate's business, and the measures in place to manage and mitigate those risks from a quantitative and qualitative perspective. The risks described below are typically reflected in the LCR; and typically the majority of the total assessed value of the risks concerned is attributable to Insurance Risk.

The insurance risks faced by a syndicate include the occurrence of catastrophic events, downward pressure on pricing of risks, reductions in business volumes and the risk of inadequate reserving. Reinsurance risks arise from the risk that a reinsurer fails to meet their share of a claim. The management of the syndicate's funds is exposed to risks of investment, liquidity, currency and interest rates leading to financial loss. The syndicate is also exposed to regulatory and operational risks including its ability to continue to trade. However, supervision by Lloyd's provides additional controls over the syndicate's management of risks.

The Group manages the risks faced by the syndicates on which it participates by monitoring the performance of the syndicates it supports. This commences in advance of committing to support a syndicate for the following year, with a review of the business plan prepared for each syndicate by its managing agent. In addition quarterly reports and annual accounts together with any other information made available by the managing agent are monitored and if necessary enquired into. If the Group considers that the risks being run by the syndicate are excessive it will seek confirmation from the managing agent that adequate management of the risk is in place and if considered appropriate will withdraw support from the next underwriting year. The Group relies on advice provided by the Members' Agent which acts for it, who are specialists in assessing the performance and risk profiles of syndicates.

Investment and Currency risks

The other significant risks faced by the Group are with regard to the investment of the available funds within its own custody. The elements of these risks are investment risk, liquidity risk, currency risk and interest rate risk. The main liquidity risk would arise if a syndicate had inadequate liquid resources for a large claim and sought funds from the Group to meet the claim. In order to minimise investment, credit and liquidity risk the Group's funds are invested in readily realisable short term cash deposits.

Regulatory risks

The Group is subject to continuing approval by Lloyd's to be a member of a Lloyd's syndicate. The risk of this approval being removed is mitigated by monitoring and fully complying with all requirements in relation to membership of Lloyd's. The capital requirements to support the proposed amount of syndicate capacity for future years are subject to the requirements of Lloyd's. A variety of factors are taken into account by Lloyd's in setting these requirements including market conditions and syndicate performance and although the process is intended to be fair and reasonable the requirements can fluctuate from one year to the next, which may constrain the volume of underwriting the Group is able to support.

SD Underwriting Limited

Strategic Report (continued)

Operational risks

As there are relatively few transactions actually undertaken by the Group there are only limited systems and staffing requirements of the Group and therefore operational risks are not considered to be significant. Close involvement of all directors in the Group's key decision making and the fact that the majority of the Group's operations are conducted by syndicates provides control over any remaining operational risks.

Approved by the Board on 25 September 2014
and signed on its behalf by:



Hampden Legal Plc
Secretary

SD Underwriting Limited

Report of the Auditors

Independent Auditor's report to the Members of SD Underwriting Limited

We have audited the Financial Statements of SD Underwriting Limited for the year ended 31 December 2013 which comprise the Group Profit and Loss Account, the Group and Parent Company Balance Sheets, the Group Cash Flow Statement and the 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).

This report is made solely to the Company's Members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the Company and the Company's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the 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 Report of the Directors and the Strategic 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 Group and the Parent Company's affairs as at 31 December 2013 and of the Group's profit 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 matter prescribed by the Companies Act 2006

In our opinion the information given in the Report of the Directors and Strategic 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 by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements are not in agreement with the accounting records and returns; 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.


John Perry (Senior statutory auditor)
For and on behalf of PKF Littlejohn LLP
Statutory auditor
September 2014

1 Westferry Circus
Canary Wharf
London
E14 4HD

SD Underwriting Limited

Consolidated Profit and Loss Account Technical Account – General Business For the year ended 31 December 2013

	Note	2013 £	2012 £
Premiums written			
Gross premiums written	1	4,605,313	4,801,705
Outward reinsurance premiums		(891,879)	(1,110,433)
Net premiums written		<u>3,713,434</u>	<u>3,691,272</u>
Change in the provision for unearned premiums			
Gross amount		6,688	(276,775)
Reinsurers' share		896	36,629
Earned premiums, net of reinsurance		<u>3,721,018</u>	<u>3,451,126</u>
Allocated investment return transferred from the non-technical account		65,391	150,572
Claims paid			
Gross amount		(2,216,331)	(2,302,739)
Reinsurers' share		476,046	467,166
Net claims paid		<u>(1,740,285)</u>	<u>(1,835,573)</u>
Change in the provision for claims			
Gross amount		327,851	11,011
Reinsurers' share		(195,630)	164,207
Change in net provision for claims		<u>132,221</u>	<u>175,218</u>
Claims incurred, net of reinsurance		<u>(1,608,064)</u>	<u>(1,660,355)</u>
Net operating expenses	3	(1,539,596)	(1,438,226)
Balance on the technical account for general business		<u>638,749</u>	<u>503,117</u>

The accounting policies and notes on pages 12 to 24 are an integral part of these Financial Statements.

SD Underwriting Limited
Consolidated Profit and Loss Account
Non - Technical Account
For the year ended 31 December 2013

	Note	2013 £	2012 £
Balance on the technical account for general business		638,749	503,117
Investment income	4	137,615	160,209
Unrealised gains on investments		72,503	90,690
Investment expenses and charges	5	(66,445)	(59,494)
Unrealised losses on investments		(65,792)	(37,787)
Allocated investment return transferred to the general business technical account		(65,391)	(150,572)
Other income		-	682
Other charges		(127,106)	(176,678)
Profit on ordinary activities before taxation	6	524,133	330,167
Tax on profit on ordinary activities	7	(113,676)	(60,787)
Profit for the financial year	15	410,457	269,380

The Group had no recognised gains or losses other than the profit for the year.

All amounts relate to continuing operations.

The accounting policies and notes on pages 12 to 24 are an integral part of these Financial Statements.

SD Underwriting Limited

Consolidated Balance Sheet As at 31 December 2013

	Note	31 December 2013			31 December 2012		
		Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
Assets							
Intangible assets	9	-	89,164	89,164	-	126,710	126,710
Investments							
Financial investments	10	5,142,282	24,547	5,166,829	5,228,649	15,294	5,243,943
Deposits with ceding undertakings		1,720	-	1,720	1,469	-	1,469
		5,144,002	24,547	5,168,549	5,230,118	15,294	5,245,412
Reinsurers' share of technical provisions							
Provision for unearned premiums		262,154	-	262,154	263,913	-	263,913
Claims outstanding		1,455,680	-	1,455,680	1,700,990	-	1,700,990
Other technical provisions		-	-	-	-	-	-
		1,717,834	-	1,717,834	1,964,903	-	1,964,903
Debtors							
Arising out of direct insurance operations		814,619	-	814,619	1,006,352	-	1,006,352
Arising out of reinsurance operations		1,211,208	-	1,211,208	836,743	-	836,743
Other debtors	12	383,559	511,270	894,829	568,332	853,910	1,422,242
		2,409,386	511,270	2,920,656	2,411,427	853,910	3,265,337
Other assets							
Cash at bank and in hand		297,739	203,997	501,736	258,997	164,821	423,818
Other		488,911	-	488,911	540,985	-	540,985
		786,650	203,997	990,647	799,982	164,821	964,803
Prepayments and accrued income							
Accrued interest		9,131	-	9,131	9,684	-	9,684
Deferred acquisitions costs		477,474	-	477,474	474,519	-	474,519
Other prepayments and accrued income		11,708	-	11,708	11,393	-	11,393
		498,313	-	498,313	495,596	-	495,596
Total assets		10,556,185	828,978	11,385,163	10,902,026	1,160,735	12,062,761

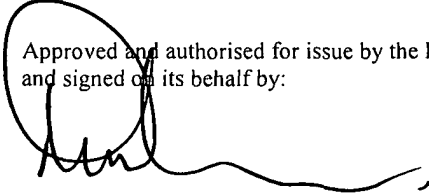
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SD Underwriting Limited

Consolidated Balance Sheet As at 31 December 2013

	Note	31 December 2013			31 December 2012		
		Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
Liabilities and shareholders' funds							
Capital and reserves							
Called up share capital	13	-	100	100	-	100	100
Other reserves		-	38,275	38,275	-	38,275	38,275
Profit and loss account	14	656,636	156,990	813,626	171,106	232,063	403,169
Shareholders' funds – attributable to equity interests	15	656,636	195,365	852,001	171,106	270,438	441,544
Technical provisions							
Provision for unearned premiums		1,909,461	-	1,909,461	1,938,479	-	1,938,479
Claims outstanding – gross amount		6,731,359	-	6,731,359	7,231,474	-	7,231,474
Other technical provisions		-	-	-	-	-	-
Provisions for other risks and charges							
Deferred taxation	16	-	-	-	-	-	-
Other		-	-	-	-	-	-
Deposit received from reinsurers		1,005	-	1,005	787	-	787
Creditors							
Arising out of direct insurance operations		82,950	-	82,950	104,979	-	104,979
Arising out of reinsurance operations		663,549	-	663,549	818,450	-	818,450
Amounts owed to credit institutions		-	-	-	-	-	-
Other creditors including taxation and social security	17	458,623	513,443	972,066	627,202	755,953	1,383,155
		9,846,947	513,443	10,360,390	10,721,371	755,953	11,477,324
Accruals and deferred income		52,602	120,170	172,772	9,549	134,344	143,893
Total liabilities		10,556,185	828,978	11,385,163	10,902,026	1,160,735	12,062,761

Approved and authorised for issue by the Board of Directors on 25 September 2014
and signed on its behalf by:


Mark Tottman for and on behalf of
Nomina Plc
Director

Company registration number: 06495582

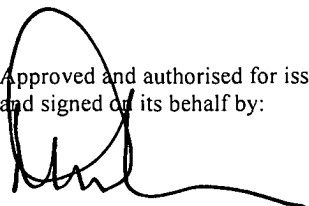
The accounting policies and notes on pages 12 to 24 are an integral part of these Financial Statements.

SD Underwriting Limited

Company Balance Sheet As at 31 December 2013

	Note	2013 £	2012 £
Fixed assets			
Investment in Group undertakings	11	<u>158,193</u>	<u>206,096</u>
		158,193	206,096
Current assets			
Other debtors	12	72,777	72,777
Cash at bank		<u>33,985</u>	<u>47,955</u>
		106,762	120,732
Creditors – amounts falling due within one year			
Amounts owed to Group undertakings		(192,262)	(192,262)
Amounts owed to Shareholders		(198,293)	(188,293)
Other creditors and accruals		<u>(5,521)</u>	<u>(13,680)</u>
		(396,076)	(394,235)
Net current liabilities		(289,314)	(273,503)
Total assets less current liabilities		<u>(131,121)</u>	<u>(67,407)</u>
Capital and reserves			
Called up share capital	13	100	100
Profit and loss account	14	(131,221)	(67,507)
Total shareholders' funds	15	<u>(131,121)</u>	<u>(67,407)</u>

Approved and authorised for issue by the Board of Directors on ²⁵ September 2014
and signed on its behalf by:



Mark Tottman for and on behalf of
Nomina Plc
Director

Company registration number: 06495582

The accounting policies and notes on pages 12 to 24 are an integral part of these Financial Statements.

SD Underwriting Limited

Consolidated Cash Flow Statement For the year ended 31 December 2013

	Note	2013 £	2012 £
Operating activities			
Net cash inflow/(outflow) from operating activities	18	53,637	(70,857)
Returns on investments and servicing of finance		561	1,324
Capital expenditure			
Purchase of syndicate capacity		(7,177)	(22,607)
Proceeds from sale of syndicate capacity		-	21,750
Acquisition of subsidiary, net of cash acquired		-	-
Taxation			
Corporation and overseas taxes paid		(7,845)	(194,714)
Equity dividends paid		-	-
Financing			
Issue of shares		-	-
Share issue expenses		-	-
Net cash inflow/(outflow) for the year	18	<u>39,176</u>	<u>(265,104)</u>
Cash flows were invested as follows:			
Increase/(decrease) in cash holdings	18	39,176	(256,912)
Purchase of financial investments		-	-
Sale of financial investments		-	(8,192)
Net investment of cash flows		<u>39,176</u>	<u>(265,104)</u>

The Group has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the cash flow statement is prepared reflecting only the movement in corporate funds, which includes transfers to and from the syndicates at Lloyd's.

The accounting policies and notes on pages 12 to 24 are an integral part of these Financial Statements.

SD Underwriting Limited

Accounting Policies

For the year ended 31 December 2013

Basis of preparation

The Financial Statements are prepared under the historical cost basis of accounting modified to include the revaluation of investments and comply with applicable Accounting Standards.

The Company participates in insurance business as an underwriting member of various syndicates at Lloyd's.

The Financial Statements have been prepared in accordance with Section 396(3) of the Companies Act 2006, Schedule 3 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and the recommendations of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers in December 2005, as amended in December 2006, except that exchange differences arising on syndicate assets and liabilities are dealt with in the technical account as all of these differences arise from technical account transactions.

Accounting information in respect of the syndicate participations has been provided by the Syndicate's managing agent and has been reported upon by the syndicate auditors.

Going concern

The Group participates as an underwriting member of Lloyd's. Its underwriting is supported by Funds at Lloyd's either made available by the Company directly or by its shareholders. The Directors are of the opinion that the Group and the Company has adequate resources to meet its underwriting and other operational obligations for the foreseeable future. Accordingly, the going concern concept has been adopted in preparation of the Financial Statements.

Basis of accounting

i. Company

Under the requirements of FRS 6, Acquisitions and Mergers, the consolidated accounts of the Company have been prepared using merger accounting where the conditions have been met, otherwise acquisition accounting has been used.

The carrying values of the assets and liabilities of the combining bodies have not been adjusted to fair value on consolidation. However appropriate adjustments have been made to achieve uniformity of accounting policies.

The results and cash flows of all the combining bodies have been brought into the financial statements of SD Underwriting Limited from the beginning of the current financial year, adjusted to achieve uniformity of accounting policies.

As permitted by Section 408 of the Companies Act 2006, the Profit and Loss Account of the Parent Company is not presented as part of these Financial Statements. The profit or loss of the Parent Company for the year is shown in note 15.

ii. Subsidiaries

The Financial Statements are prepared using the annual basis of accounting. Under the annual basis of accounting a result is determined at the end of each accounting period reflecting the profit or loss from providing insurance coverage during that period and any adjustments to the profit or loss of providing insurance cover during earlier accounting periods.

Amounts reported in the general business technical account relate to movements in the period in respect of all relevant years of account of the syndicates on which the Company participates.

Assets and liabilities arising as a result of the underwriting activities are mainly controlled by the syndicates' managing agents. Accordingly, these assets and liabilities have been shown separately in the balance sheet as "Syndicate Participation". Other assets and liabilities are shown as "Corporate". The syndicate assets are held subject to trust deeds for the benefit of the syndicates' insurance creditors.

The information included in these Financial Statements in respect of the syndicates has been supplied by managing agents based upon the various accounting policies they have adopted. The following describes the policies they have adopted.

SD Underwriting Limited

Accounting Policies

For the year ended 31 December 2013

Basis of accounting (continued)

General business

i. Premiums

Premiums written comprise the total premiums receivable in respect of business incepted during the year, together with any differences between booked premiums for prior years and those previously accrued, and include estimates of premiums due but not yet receivable or notified to the syndicates on which the Company participates, less an allowance for cancellations. All premiums are shown gross of commission payable to intermediaries and exclude taxes and duties levied on them.

ii. Unearned premiums

Written premium is earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to unexpired terms of policies in force at the Balance Sheet date, calculated on a time apportionment basis having regard where appropriate, to the incidence of risk. The specific basis adopted by each syndicate is determined by the relevant managing agent.

iii. Deferred acquisition costs

Acquisition costs, which represent commission and other related expenses, are deferred over the period in which the related premiums are earned.

iv. Reinsurance premiums

Reinsurance premium costs are allocated by the managing agent of each syndicate to reflect the protection arranged in respect of the business written and earned.

v. Claims incurred and reinsurers' share

Claims incurred comprise claims and settlement expenses (both internal and external) occurring in the year and changes in the provisions for outstanding claims, including provisions for claims incurred but not reported and settlement expenses, together with any other adjustments to claims from previous years. Where applicable, deductions are made for salvage and other recoveries.

The provision for claims outstanding comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR). The amount included in respect of IBNR is based on statistical techniques of estimation applied by each syndicate's in house reserving team and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to each syndicate's reinsurance programme in place for the class of business, the claims experience for the year and the current security rating of the reinsurance companies involved. Each syndicate uses a number of statistical techniques to assist in making these estimates.

Accordingly the two most critical assumptions made by each syndicates managing agent as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used including pricing models for recent business are reasonable indicators of the likely level of ultimate claims to be incurred.

SD Underwriting Limited

Accounting Policies

For the year ended 31 December 2013

General business (continued)

v. Claims incurred and reinsurers' share (continued)

The level of uncertainty with regard to the estimations within these provisions generally decreases with time since the underlying contracts were exposed to new risks. In addition the nature of short tail claims such as property where claims are typically notified and settled within a short period of time will normally have less uncertainty after a few years than long tail risks such as some liability business where it may be several years before claims are fully advised and settled. In addition to these factors if there are disputes regarding coverage under policies or changes in the relevant law regarding a claim this may increase the uncertainty in the estimation of the outcomes.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The provisions for gross claims and related reinsurance recoveries have been assessed on the basis of the information currently available to the directors of each syndicate's managing agent. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

vi. Unexpired risks provision

Provisions for unexpired risks are made where the costs of outstanding claims, related expenses and deferred acquisition costs are expected to exceed the unearned premium provision carried forward at the balance sheet date. The provision for unexpired risks is calculated separately by reference to classes of business which are managed together, after taking into account relevant investment return. The provision is made on a syndicate by syndicate basis by the relevant managing agent.

vii. Closed years of account

At the end of the third year, the underwriting account is normally closed by reinsurance into the following year of account. The amount of the reinsurance to close premium payable is determined by the managing agent, generally by estimating the cost of claims notified but not settled at 31 December, together with the estimated cost of claims incurred but not reported at that date, and an estimate of future claims handling costs.

Any subsequent variation in the ultimate liabilities of the closed year of account is borne by the underwriting year into which it is reinsured.

The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring syndicate was unable to meet its obligations, and the other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle outstanding claims.

The Directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle the liabilities outstanding at the closure of an underwriting account. The Company has included its share of the reinsurance to close premiums payable as technical provisions at the end of the current period, and no further provision is made for any potential variation in the ultimate liability of that year of account.

viii. Run-off years of account

Where an underwriting year of account is not closed at the end of the third year (a "run-off" year of account) a provision is made for the estimated cost of all known and unknown outstanding liabilities of that year. The provision is determined initially by the managing agent on a similar basis to the reinsurance to close. However, any subsequent variation in the ultimate liabilities for that year remains with the corporate member participating therein. As a result any run-off year will continue to report movements in its results after the third year until such time as it secures a reinsurance to close.

SD Underwriting Limited

Accounting Policies

For the year ended 31 December 2013

General business (continued)

ix. Net operating expenses (including acquisition costs)

Net operating costs include acquisition costs, profit and loss on exchange and other amounts incurred by the syndicates on which the Company participates.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the Balance Sheet date.

x. Distribution of profits and collection of losses

Lloyd's operates a detailed set of regulations regarding solvency and the distribution of profits and payment of losses between syndicates and their members. Lloyd's continues to require membership of syndicates to be on an underwriting year of account basis and profits and losses belong to members according to their membership of a year of account. Normally profits and losses are transferred between the syndicate and members after results for a year of account are finalised after 36 months. This period may be extended if a year of account goes into run-off. The syndicate may make earlier on account distributions or cash calls according to the cash flow of a particular year of account and subject to Lloyd's requirements.

xi. Investments

Investments are stated at current value, including accrued interest at the Balance Sheet date.

xii. Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses and charges.

Realised and unrealised gains and losses are measured by reference to the original cost of the investment if purchased in the year, or if held at the beginning of the year by reference to the current value at that date.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account to reflect the investment return on funds supporting the underwriting business.

xiii. Basis of currency translation

Syndicates maintain separate funds in Sterling, US dollars, Canadian dollars and Euros.

Income and expenditure in US dollars, Canadian dollars and Euros is translated at the average rate of exchange for the year. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities are translated into Sterling at the rates of exchange at the Balance Sheet date.

Differences arising on translation of foreign currency amounts in syndicates are included in the technical account.

xiv. Debtors/creditors arising from insurance/reinsurance operations

The amounts shown in the Balance Sheet include the totals of all the Syndicates outstanding debit and credit transactions as processed by the Lloyd's central facility; no account has been taken of any offsets which may be applicable in calculating the net amounts due between the Syndicates and each of their counterparty insureds, reinsurers or intermediaries as appropriate.

SD Underwriting Limited

Accounting Policies

For the year ended 31 December 2013

Taxation

The Company is taxed on its results including its share of underwriting results declared by the syndicates and these are deemed to accrue evenly over the calendar year in which they are declared. The syndicate results included in these Financial Statements are only declared for tax purposes in the calendar year following the normal closure of the year of account. No provision is made for corporation tax in relation to open years of account. However, full provision is made for deferred tax on underwriting results not subject to current corporation tax.

HM Revenue & Customs agrees the taxable results of the syndicates at a syndicate level on the basis of computations submitted by the managing agent. At the date of the approval of these Financial Statements the syndicate taxable results of years of account closed at this and at previous year ends may not have been fully agreed with HM Revenue & Customs. Any adjustments that may be necessary to the tax provisions established by the Company, as a result of HM Revenue & Customs agreement of syndicate results, will be reflected in the Financial Statements of subsequent periods.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax assets and liabilities have not been discounted.

Intangible assets

Costs incurred by the Company in the Corporation of Lloyd's auctions in order to acquire rights to participate on syndicates' underwriting years are included within intangible fixed assets and amortised over a 5 year period beginning in the year following the purchase of the syndicate participation.

Cash flow statement

The Company has no control over the disposition of assets and liabilities at Lloyd's. Consequently, the Cash Flow Statement is prepared reflecting only the movement in corporate funds, which includes transfers to and from syndicates at Lloyd's.

Goodwill

On consolidation, goodwill arising on the acquisition of subsidiary undertakings is capitalised on the consolidated balance sheet and amortised over a period of 5 years. Goodwill will be written down in value if, in the directors opinion, the value has been permanently impaired.

SD Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2013

1. Class of Business

2013	Gross Written Premiums £	Gross Premiums Earned £	Gross Claims Incurred £	Net Operating Expenses £	Reinsurance Balance £	Total £
Direct insurance						
Accident and health	167,579	165,975	(75,666)	(72,480)	(8,833)	8,996
Motor – third party liability	20,209	14,970	(9,088)	(6,184)	192	(110)
Motor – other classes	217,223	220,474	(160,143)	(84,014)	970	(22,713)
Marine, aviation and transport	512,769	528,292	(193,986)	(174,081)	(54,311)	105,914
Fire and other damage to property	1,102,283	1,140,566	(384,367)	(406,720)	(205,365)	144,114
Third party liability	779,593	769,849	(484,451)	(284,436)	18,082	19,044
Credit and suretyship	87,179	85,841	(11,241)	(31,953)	(12,625)	30,022
Legal expenses	13,037	12,352	(4,357)	(6,634)	(757)	604
Assistance	-	-	-	-	-	-
Miscellaneous	5,263	5,712	(2,872)	(2,779)	(76)	(15)
Total direct	2,905,135	2,944,031	(1,326,171)	(1,069,281)	(262,723)	285,856
Reinsurance	1,700,178	1,667,970	(562,309)	(470,315)	(347,844)	287,502
Total	4,605,313	4,612,001	(1,888,480)	(1,539,596)	(610,567)	573,358
2012	Gross Written Premiums £	Gross Premiums Earned £	Gross Claims Incurred £	Net Operating Expenses £	Reinsurance Balance £	Total £
Direct insurance						
Accident and health	183,390	185,673	(87,039)	(79,384)	(5,541)	13,709
Motor – third party liability	7,986	10,349	(404)	(3,849)	(216)	5,880
Motor – other classes	223,648	220,499	(167,275)	(79,578)	12,129	(14,225)
Marine, aviation and transport	566,701	544,275	(213,730)	(180,434)	(31,440)	118,671
Fire and other damage to property	1,204,110	1,167,755	(588,494)	(406,496)	(155,011)	17,754
Third party liability	817,019	799,550	(400,922)	(269,948)	(42,709)	85,971
Credit and suretyship	87,165	83,210	(22,141)	(29,782)	(12,945)	18,342
Legal expenses	11,669	11,236	(5,347)	(5,866)	23	46
Assistance	-	-	-	-	-	-
Miscellaneous	9,497	9,046	(3,107)	(5,374)	(16)	549
Total direct	3,111,185	3,031,593	(1,488,459)	(1,060,711)	(235,726)	246,697
Reinsurance	1,690,520	1,493,337	(803,269)	(377,515)	(206,705)	105,848
Total	4,801,705	4,524,930	(2,291,728)	(1,438,226)	(442,431)	352,545

SD Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2013

2. Geographical analysis	2013 £	2012 £
Direct gross premium written in:		
United Kingdom	2,314,062	2,507,346
Other EU Member States	42,528	43,658
Rest of the World	548,545	560,181
	2,905,135	3,111,185
<hr/>		
3. Net operating expenses	2013 £	2012 £
Acquisition costs	1,052,707	1,066,868
Change in deferred acquisition costs	(15,034)	(73,324)
Administrative expenses	413,251	401,980
Loss/(profit) on exchange	88,672	42,702
	1,539,596	1,438,226
<hr/>		
4. Investment income	2013 £	2012 £
Income from investments	117,167	124,424
Gains on the realisation of investments	19,887	34,461
Bank deposit interest	561	1,324
	137,615	160,209
<hr/>		
5. Investment expenses and charges	2013 £	2012 £
Investment management expenses, including interest	14,277	16,390
Losses on the realisation of investments	52,168	43,104
	66,445	59,494
<hr/>		
6. Profit/(loss) on ordinary activities before taxation	2013 £	2012 £
This is stated after charging:		
Amortisation of syndicate capacity	32,097	29,637
Amortisation of goodwill	12,626	15,152
Loss on disposal of syndicate capacity	20,895	-
Auditors remuneration	5,760	5,520
	71,378	50,229

The Company has no employees.

SD Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2013

7. Taxation	2013 £	2012 £
Analysis of charge in year		
Current tax:		
UK corporation tax on profit of the year	(4)	(3,879)
Adjustment in respect of previous year	(5,305)	(14,248)
	<u>(5,309)</u>	<u>(18,127)</u>
Foreign tax	8,052	18,141
Total current tax	<u>2,743</u>	<u>14</u>
Deferred tax:		
Origination and reversal of timing differences	113,557	60,773
Change in tax rate	(2,624)	-
	<u>113,676</u>	<u>60,787</u>

Factors affecting tax charge for year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%). The differences are explained below:

Profit on ordinary activities before tax	524,132	330,167
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012 – 24.5%)	121,861	80,891
Effects of:		
Underwriting results subject to timing differences for taxation	(93,364)	49,728
Utilisation of tax losses	16,864	(70,719)
Foreign tax	8,052	18,141
Other corporation computation adjustments	(45,359)	(56,384)
Marginal rates of taxation and prior period adjustment	(5,311)	(21,643)
Current tax charge for the year	<u>2,743</u>	<u>14</u>

The results of the Group's participation on the 2011, 2012 and 2013 years of account and the calendar year movement on 2010 and prior run-offs, will not be assessed to tax until the year ended 31 December 2014, 2015 and 2016 respectively being the year after the calendar year result of each run-off year or the normal date of closure of each year of account.

8. Dividends	2013 £	2012 £
Equity dividends declared and paid	<u>-</u>	<u>-</u>

SD Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2013

9. Intangible Assets

	Purchased syndicate capacity £	Goodwill £	2013 Total £	Purchased syndicate capacity £	Goodwill £	2012 Total £
Cost						
At 1 January 2013	174,066	75,758	249,824	185,782	75,758	261,540
Additions	7,177	-	7,177	22,607	-	22,607
Disposals	-	-	-	(34,323)	-	(34,323)
At 31 December 2013	<u>181,243</u>	<u>75,758</u>	<u>257,001</u>	<u>174,066</u>	<u>75,758</u>	<u>249,824</u>
Amortisation						
At 1 January 2013	59,982	63,132	123,114	43,773	47,980	91,753
Provided during the year	32,097	12,626	44,723	29,637	15,152	44,789
Disposals	-	-	-	(13,428)	-	(13,428)
At 31 December 2013	<u>92,079</u>	<u>75,758</u>	<u>167,837</u>	<u>59,982</u>	<u>63,132</u>	<u>123,114</u>
Net book value						
At 31 December 2013	<u>89,164</u>	<u>-</u>	<u>89,164</u>	<u>114,084</u>	<u>12,626</u>	<u>126,710</u>

10. Investments

Other financial investments - Syndicate

	2013		2012	
	Market value £	Cost £	Market value £	Cost £
Shares and other variable yield securities and units in unit trusts	464,449	458,909	545,798	539,495
Debt securities and other fixed income securities	4,261,350	4,291,521	4,216,220	4,136,544
Participation in investment pools	293,402	280,581	291,164	365,022
Loans secured by mortgages	13,941	13,811	24,882	24,604
Other loans	4,150	4,150	34,474	34,465
Deposits with credit institutions	5,303	5,300	6,328	6,331
Other	99,687	103,037	109,783	105,471
	<u>5,142,282</u>	<u>5,157,309</u>	<u>5,228,649</u>	<u>5,211,932</u>
Listed investments included within the above	<u>5,019,201</u>	<u>5,031,011</u>	<u>5,053,182</u>	<u>5,041,061</u>

Other financial investments - Corporate

Shares and other variable yield securities	24,547	15,028	15,294	15,028
Debt securities and other fixed income securities	-	-	-	-
	<u>24,547</u>	<u>15,028</u>	<u>15,294</u>	<u>15,028</u>
Listed investments included within the above	<u>24,547</u>	<u>15,028</u>	<u>15,294</u>	<u>15,028</u>

SD Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2013

11. Investment in group undertakings

The Company's fixed asset investments represent investments in subsidiary undertakings stated at cost adjusted for any impairment.

	2013 £	2012 £
Balance at 1 January 2013	206,096	206,096
Adjustment for impairment review	(47,903)	-
Balance at 31 December 2013	158,193	206,096

The Company's principal subsidiary undertakings, all of which are included in the consolidation, are as follows:

Name	Shares held by Group %	Nature of business
Caroe Underwriting Limited	100	Lloyd's Corporate Member
Dunbar Underwriting Limited	100	Lloyd's Corporate Member
Nameco (No. 35) Limited	100	Lloyd's Corporate Member
Nameco (No. 104) Limited	100	Lloyd's Corporate Member
Nameco (No. 244) Limited	100	Lloyd's Corporate Member
Nameco (No. 338) Limited	100	Lloyd's Corporate Member
Nameco (No. 363) Limited	100	Lloyd's Corporate Member
Evedon Enterprises Limited	100	Lloyd's Corporate Member
J F C Palmer Limited	100	Lloyd's Corporate Member
Nameco (No. 96) Limited	100	Lloyd's Corporate Member
Nameco (No. 126) Limited	100	Lloyd's Corporate Member
Nameco (No. 207) Limited	100	Lloyd's Corporate Member
Nameco (No. 210) Limited	100	Lloyd's Corporate Member
Nameco (No. 203) Limited	100	Lloyd's Corporate Member
Nameco (No. 204) Limited	100	Lloyd's Corporate Member
Nameco (No. 230) Limited	100	Lloyd's Corporate Member

12. Other debtors

Group	2013			2012		
	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
Proprietors' loan account	-	1,291	1,291	-	-	-
Funds at Lloyd's	-	428,700	428,700	-	573,180	573,180
Deferred tax	-	65,315	65,315	-	176,248	176,248
Other	383,559	15,964	399,523	568,332	104,482	672,814
	383,559	511,270	894,829	568,332	853,910	1,422,242

Funds at Lloyd's represents assets deposited with the Corporation of Lloyd's (Lloyd's) to support the Group's underwriting activities as described in the Accounting Policies. The Group has entered into a Lloyd's Deposit Trust Deed which gives the Corporation the right to apply these monies in settlement of any claims arising from the participation on the syndicates. These monies can only be released from the provision of this Deed with Lloyd's express permission and only in circumstances where the amounts are either replaced by an equivalent asset, or after the expiration of the Group's liabilities in respect of its underwriting.

Company

The Company debtors include unpaid share capital of £100 (2012: £100) and amounts due from group undertakings of £72,677 (2012: £72,677).

SD Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2013

13. Called-up share capital	2013	2012
	£	£
Allotted, called up and unpaid		
Ordinary £1 shares	<u>100</u>	<u>100</u>

14. Profit and loss account	2013	2012
	£	£
Company		
Retained loss brought forward	(67,507)	(46,829)
Loss for the financial year	(63,714)	(20,678)
Retained loss carried forward	<u>(131,221)</u>	<u>(67,507)</u>

		2013			2012	
	Syndicate participation	Corporate	Total	Syndicate participation	Corporate	Total
Group	£	£	£	£	£	£
Retained profit/(loss) brought forward	171,106	232,063	403,169	433,533	(299,744)	133,789
Reallocate distribution	(198,812)	198,812	-	(826,114)	826,114	-
Profit/(loss) for the financial year	684,342	(273,885)	410,457	563,687	(294,307)	269,380
Retained profit/(loss) carried forward	<u>656,636</u>	<u>156,990</u>	<u>813,626</u>	<u>171,106</u>	<u>232,063</u>	<u>403,169</u>

15. Reconciliation of movements in shareholders' funds	2013	2012
	£	£
Group		
Opening shareholders' funds	441,544	172,164
Profit for the financial year	410,457	269,380
Closing shareholders' funds	<u>852,001</u>	<u>441,544</u>

	2013	2012
	£	£
Company		
Opening shareholders' funds	(67,407)	(46,729)
Loss for the financial year	(63,714)	(20,678)
Closing shareholders' funds	<u>(131,121)</u>	<u>(67,407)</u>

16. Deferred taxation	2013	2012
	£	£
Opening balance	(176,248)	(234,006)
Profit and loss account charge	110,933	57,758
Closing balance	<u>(65,315)</u>	<u>(176,248)</u>

The above balance of £65,315 is a deferred tax asset on trading losses available to offset future profits, which is included in other debtors note 12.

SD Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2013

17. Other creditors including taxation and social security

	2013			2012		
	Syndicate participation £	Corporate £	Total £	Syndicate participation £	Corporate £	Total £
Corporation tax	-	-	-	-	2,671	2,671
Proprietors' loan accounts	-	513,443	513,443	-	742,688	742,688
Other creditors	458,623	-	458,623	627,202	10,593	637,795
Amounts due to group undertakings	-	-	-	-	1	1
	<u>458,623</u>	<u>513,443</u>	<u>972,066</u>	<u>627,202</u>	<u>755,953</u>	<u>1,383,155</u>

No interest is charged on the proprietors' loan.

18. (a) Reconciliation of operating profit to net cash outflow from operating activities

	2013 £	2012 £
Profit/(loss) on ordinary activities before tax	524,133	330,167
Syndicate transactions	(485,530)	262,427
Balance	<u>38,603</u>	<u>592,594</u>
Interest received	(561)	(1,324)
Decrease/increase) in debtors	221,738	(539,885)
(Decrease)/increase in creditors	(241,613)	(162,918)
Profit on disposal of intangible assets	-	(855)
Amortisation of syndicate capacity	32,097	29,635
Amortisation of goodwill	12,626	15,152
Realised/unrealised (gains)/losses on investments	(9,253)	(3,256)
Net outflow from operating activities	<u>(53,637)</u>	<u>(70,857)</u>

(b) Movement in cash, portfolio investments and financing

	At 1 January 2013 £	Cashflow £	Changes to market value £	At 31 December 2013 £
Cash	164,821	39,176	-	203,997
Other financial investments	15,294	-	9,253	24,547
	<u>180,115</u>	<u>39,176</u>	<u>9,253</u>	<u>228,544</u>

19. Related party disclosure

The Company has taken advantage of the exemption under paragraph 3 of Financial Reporting Standard 8, "Related Party Disclosures", not to disclose transactions or balances during the period with group undertakings.

Nomina Plc, a director of the Company, administers the conversion scheme in which the Group participates. Nomina Plc charged a management fee of £57,000 (2012: £57,000) to cover all the costs of basic administration of the Group.

20. Ultimate controlling party

The Company is controlled by S Dickinson.

SD Underwriting Limited

Notes to the Financial Statements For the year ended 31 December 2013

21. Syndicate participation

The principal syndicates or members' agent pooling arrangements ("MAPA") in which the Group participates as an underwriting member are as follows:

Syndicate or MAPA number:	Managing agent	2014 Allocated capacity £	2013 Allocated capacity £	2012 Allocated capacity £	2011 Allocated capacity £
33	Hiscox Syndicates Limited	175,725	166,939	166,939	158,152
218	Equity Syndicate Management Limited	66,102	66,102	66,102	73,447
318	Beaufort Underwriting Agency Limited	-	-	-	-
386	QBE Underwriting Limited	55,206	55,206	55,206	48,790
510	R J Kiln & Co Limited	269,599	269,599	269,599	214,461
557	R J Kiln & Co Limited	23,912	23,912	23,912	23,912
570	Atrium Underwriters Limited	-	-	-	97,440
609	Atrium Underwriters Limited	97,440	97,440	97,440	-
623	Beazley Furlonge Limited	274,162	253,852	242,228	242,228
727	S A Meacock & Company Limited	115,027	115,027	115,027	115,027
807	R J Kiln & Co Limited	-	-	-	92,068
958	Canopus Managing Agents Limited	103,663	130,319	165,861	165,861
1176	Chaucer Syndicates Limited	12,525	12,525	12,525	12,525
1200	Argo Managing Agency Limited	-	-	177,348	309,886
1729	Asta Managing Agency Limited	103,220	-	-	-
2010	Cathedral Underwriting Limited	172,765	172,765	172,765	172,765
2014	Pembroke Managing Agency Limited	216,219	-	-	-
2121	Argenta Syndicate Management Limited	-	-	51,426	51,426
2791	Managing Agency Partners Limited	327,699	372,135	372,135	372,135
6105	Ark Syndicate Management Limited	96,168	30,435	54,816	54,816
6106	Amlin Underwriting Limited	-	36,838	32,500	32,500
6110	Pembroke Managing Agency Limited	-	152,627	124,457	-
6111	Catlin Underwriting Agencies Limited	250,791	236,157	122,560	-
6117	Asta Managing Agency Limited	229,268	-	-	-
7200	Members' Agents Pooling Arrangement	225,918	225,918	225,918	219,669
7201	Members' Agents Pooling Arrangement	1,643,920	1,643,920	1,643,920	1,617,787
7202	Members' Agents Pooling Arrangement	413,150	413,150	413,150	405,302
7203	Members' Agents Pooling Arrangement	76,040	76,040	76,040	74,928
7211	Members' Agents Pooling Arrangement	46,086	46,086	46,086	44,937
7212	Members' Agents Pooling Arrangement	292,890	292,890	292,890	-
7217	Members' Agents Pooling Arrangement	111,430	111,430	111,430	111,430
		5,398,925	5,001,312	5,132,280	4,711,492