

Important information about Syndicate Reports and Accounts

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Liberty Syndicate 4472

Annual Report and Financial Statements for the year
ended 31 December 2016

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Directors and Administration

Managing Agent

Liberty Managing Agency Limited

Directors

Keith Nicholson	Chairman
Nick Metcalf	President & Managing Director
John Dunn	Group Finance Director
Matthew Moore	Group Chief Underwriting Officer
Christopher Hanks	Non-Executive
Gordon McBurney	Non-Executive
Christopher Peirce	Non-Executive
Richard Reid	Non-Executive
Frank Robinson	Non-Executive

Syndicate Secretary

Joseph Cassidy

Managing Agent's Registered Office

20 Fenchurch Street
London
EC3M 3AW

Managing Agent's Registered Number

3003606

Active Underwriter

Peter Smith

Investment Managers

Liberty Mutual Group Asset Management Inc.

Registered Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Managing Agent's Report

The Directors of the Managing Agent present their report for Syndicate 4472 for the year ended 31 December 2016. The Syndicate's Managing Agent is a company registered in England and Wales.

Strategic Report

Principal activity and review of the business

The Syndicate's principal activity is the transaction of general insurance and reinsurance business. There have not been any significant changes to the Syndicate's principal activity during the year.

Underwriting Performance

The result for the calendar year is a profit of \$196.2m (2015: \$76.5m)

Key Performance Indicators	2016 \$m	2015 restated \$m
Gross Premiums Written	1,830.6	1,763.2
Net Earned Premium	1,372.3	1,499.7
Underwriting Result	32.2	71.4
Profit for the Financial Year	196.2	76.5
Claims Ratio %	55%	53%
Expense Ratio %	43%	42%
Combined Ratio % ⁽ⁱ⁾	98%	95%

⁽ⁱ⁾ The combined ratio is the sum of the ratios of net operating expenses and net incurred claims to net earned premiums. A combined ratio of less than 100% represents an underwriting profit.

Despite challenging market conditions, and withdrawal from significant amounts of lower-quality business, new opportunities in market facilities and growth in established lines has led to an increase in the Syndicate's gross written premiums of 3.8% when compared to 2015.

Net earned premium reduced by 8.5% to \$1,372.3m (2015: \$1,499.7m) due to longer earning periods on long tail business and associated earnings impact on reduced and run off lines, together with increased ceded premiums.

The Syndicate's claims ratio slightly worsened to 55% (2015: 53%). While 2016 brought higher exposure to losses including Canadian wildfires, Hurricane Matthew and New Zealand earthquakes, increased reinsurance recoveries on casualty and property lines led to a decline in net incurred claims from \$802m to \$751.9m.

The increase in the expense ratio from 42% to 43% is also driven by the reduction in earned premiums, as net operating expenses has fallen following increased focus on expense management, partly offset by the introduction of profit commission charged by the Managing Agent following changes to the managing agency agreement in 2014.

Overall, the underwriting profit after expenses amounted to \$32.2m (2015: \$71.8m) and the combined ratio increased by 3% on the previous year.

Managing Agent's Report (continued)

Review of financial position

Financial investments have stayed relatively stable, increasing from \$4,080.2m to \$4,122.9m.

Reinsurers' share of technical provisions has increased from \$476.3m to \$684.8m, attributable to increased provisions for unearned premiums and claims in line with increased ceded premiums and a deterioration in the loss experience for certain contracts.

Gross technical provisions have decreased from \$4,263.1m to \$4,213.5m, largely due to the effect of currency fluctuation, particularly in relation to Pound Sterling.

Investment Performance

Total investment return for 2016 was \$114.5m versus \$27.4m in 2015, as the year did not suffer the significant unrealised losses seen in 2015.

The gross income from investment for 2016 was \$113.1m versus \$121.7m in 2015. This slight decrease is a function of the current low yield investment environment. Net unrealised losses on investments were \$8.9m in 2016 versus \$78.3m in 2015, driven by the in-year movement in the US risk free yield curve.

Foreign exchange gains

The Syndicate made net gains totalling \$49.5m (2015: loss of \$22.3m) on holding foreign currencies, mostly as a result of sterling weakness against the Syndicate functional currency of United States Dollar.

Principal risks and uncertainties

The principal risks and uncertainties facing the Syndicate are grouped as intrinsic, operational or other risks. Intrinsic risk incorporates the principal risks faced by the Syndicate and includes insurance risk, market risk, credit risk and liquidity risk. Other risk includes group risk and strategic risk.

The objective of the Syndicate's risk management activities is to enable it to engage with risks in a controlled fashion that is consistent with the Board's appetite and its available capital capacity while retaining the ability to implement its long term business plans and meet its obligations to policyholders.

Intrinsic Risk

Insurance Risk

Insurance risk incorporates premium risk and reserve risk. Premium risk is the variation of underwriting results from plan for reasons other than operational or insurance counterparty risk. This is influenced by the frequency and severity of claims events.

Premium risk is mitigated through the use of a diversified business plan operating within Board risk appetites and supported through the Syndicate's control environment, including underwriting controls. Reinsurance is utilised to mitigate against exposure to individual events.

Reserve risk is the variation in policyholder reserves for prior accident years required for reasons other than operational or insurance counterparty risk. This is influenced by uncertainty in the notification of claims and value of claims paid.

Reserve risk is mitigated through the use of detailed analysis performed by the Reserving Committee, including regular assessment of the results of actuarial studies, claims analysis, underwriting reviews and benchmarking exercises. In addition, business plans are developed to ensure that the long term reserve profile of the Syndicate remains stable.

Managing Agent's Report (continued)

Market Risk

Market risk is the risk of fluctuations to the net asset value due to the volatility or level of financial variables impacting primarily the value of fixed income securities and private equity funds and the discounted value of net liabilities.

The principal causes of market risk are:

- Interest rate risk: The risk of fluctuations to the net asset value due to movements in the term structure of risk free rate.
- Spread risk: The risk from the widening of the spread over “risk free” yield curve.
- Credit risk: comprises
 - Default risk: The risk that a bond defaults and we recover less than the full valuation of the bond.
 - Migration risk: The risk that the credit rating of a bond moves to a lower rating before maturity. Bonds that migrate will experience changes in valuations due to the use of yield curves based on different ratings.
- Private equity risk: The risk of fluctuations in the net asset value due to the volatility in the valuation of the private equity funds.
- Financial exchange risk: The risk of fluctuations in the net asset value due to changes in the level and volatility of currency exchange rates and mismatches between the assets and liabilities.
- Asset concentration risk: The risk of an exposure having the potential to result in significant large losses.

Market risk is mitigated through the use of a diversified investment strategy operating within Board risk appetites and operationalised through the investment guidelines.

Credit Risk

Credit risk is the risk of financial change in value due to actual credit losses deviating from expected credit losses due to the failure of another party to meet its contractual debt obligations. The principal source of credit risk arises from the inability of reinsurers to meet their contractual obligations as they become due.

Credit risk is mitigated through controls encompassing due diligence and continued monitoring to ensure the appropriate selection of counterparties and Board risk appetites to prevent inappropriate credit risk concentrations.

Liquidity Risk

Liquidity risk is the probability of loss arising from situations where the Syndicate either has insufficient cash to meet its financial obligations or is required to sell assets below their fair value to meet cash demands.

Liquidity risk is mitigated through the use of asset-liability modelling and through the maintenance of a diversified and appropriately liquid portfolio of assets.

Operational Risk

Operational risk is the risk of loss to the Syndicate resulting from the inadequate or failed internal processes, people and systems, or from external events. Operational risk is mitigated through the use of the three lines of defence model in conjunction with a system of documented, monitored and tested internal controls.

Other Risks

Group risk is the risk of loss to the Syndicate arising from its membership of both Liberty Mutual Group and Liberty Specialty Markets.

Group risk is mitigated through the monitoring of Liberty Mutual Group's financial strength and business strategy developments. In addition, the chairman of any committee reviewing risk information ensures that due attention is given to each legal entity within Liberty Specialty Markets, even in times of stress to one entity.

Managing Agent's Report (continued)

Strategic risk is the risk of loss to the Syndicate arising from key business decisions, improper implementation of decisions or lack of responsiveness to industry changes.

Strategic risk is mitigated through the development and implementation of the Syndicate's strategy and through controls relating to the development of new business opportunities.

These risks are covered in substantial detail in Note 16 to the financial statements.

Directors' Report

Directors

The current Directors are listed on page 1. Directors who held office between 1 January 2016 and the date of signing the financial statements were:

Keith Nicholson	Chairman
Nick Metcalf	President & Managing Director
John Dunn	Group Finance Director
Matthew Moore	Group Chief Underwriting Officer
Christopher Hanks	Non-Executive
Gordon McBurney	Non-Executive
Christopher Peirce	Non-Executive
Richard Reid	Non-Executive
Frank Robinson	Non-Executive

None of the Directors has any participation on the Syndicate.

Post balance sheet event

On February 27, 2017 the UK Ministry of Justice announced a change in the so called Ogden rate, which is used for discounting personal injury claims in the calculation of lump sum compensation awards, from 2.5% to -0.75% with effect from March 20, 2017.

The Managing Agent has reviewed the potential impact of the change, taking into account the significant uncertainties that might affect the ultimate cost of the decision, and has concluded that the likely ultimate cost is within the margins held by the syndicate in order to deal with such uncertainties. The most significant impact is on the Motor Reinsurance class of business.

As detailed in note 1.3.1, the ultimate costs of such claims remain subject to the uncertainties affecting all claims.

As a consequence, no adjustment to the syndicate financial statements has been made in respect of this event.

Future Developments

The Syndicate will continue to transact general insurance and reinsurance business via the Lloyd's underwriting platform within the integrated Liberty Specialty Markets organisation, and will continue to take advantage of the opportunities presented by multiple underwriting platforms, including for example an expansion in the Syndicate's international presence. This will allow the Syndicate to maintain and grow its offering in a challenging market and in difficult economic conditions.

On the 23rd of June, the UK voted against continued membership of the European Union. The implications of this vote for the Syndicate are being carefully assessed by the Directors.

Managing Agent's Report (continued)

The Board of the Managing Agent are reviewing the implications for the business of the UK's decision to leave the European Union, and are actively considering the most appropriate course of action necessary to secure the continuity of the business for the benefit of policyholders, the shareholder, our staff and other stakeholders.

Auditors

Disclosure of Information to the Auditors

In the case of each of the persons who are Directors of the Managing Agent at the time the report was approved:

- So far as the Director is aware, there is no relevant audit information, being information needed by the Syndicate auditor in connection with the auditor's report, of which the auditor is unaware; and
- Having made enquiries of fellow Directors of the Managing Agent and the Syndicate's auditor, each Director has taken all the steps that he ought to have taken as a Director to become aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

Auditors

Ernst & Young LLP have indicated their willingness to continue in office as the Syndicate's auditors.

On behalf of the Board

Nick Metcalf

President & Managing Director
London

21 March 2017

Managing Agent's responsibilities statement

The Managing Agent is responsible for preparing the Syndicate annual report and financial statements and Directors' Report in accordance with applicable laws and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 annual accounts; and
- prepare the Syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate annual accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the business' website. Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Independent auditors' report

to the member of Syndicate 4472

We have audited the syndicate annual accounts of syndicate 4472 ('the syndicate') for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts'.

This report is made solely to the syndicate's member, as a body, in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's member those matters we are required to state to them in an auditors' 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 syndicate's member as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 7, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts 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 syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual accounts. In addition, we read all the financial and non-financial information in the annual reports and financial statements to identify material inconsistencies with the audited syndicate annual accounts 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 syndicate annual accounts

In our opinion the syndicate annual accounts:

- ▶ give a true and fair view of the syndicate's affairs as at 31 December 2016 and of its profit for the year then ended;
- ▶ have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and FRS 103 'Insurance Contracts'; and
- ▶ have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Managing Agent's Report for the financial year in which the syndicate annual accounts are prepared is consistent with the syndicate annual accounts.

Independent Auditors' Report (continued)

to the member of Syndicate 4472

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- ▶ the managing agent in respect of the syndicate has not kept adequate accounting records; or
- ▶ the syndicate annual accounts are not in agreement with the accounting records; or
- ▶ we have not received all the information and explanations we require for our audit.

Angus Millar (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

21 March 2017

Income Statement

Technical Account – General Business

for the year ended 31 December 2016

		2016	2015
	Notes	\$m	restated \$m
Gross premiums written	3	1,830.6	1,763.2
Outward reinsurance premiums		(477.1)	(384.4)
Net premiums written		1,353.5	1,378.8
Change in the provision for unearned premiums:			
Gross amount		(57.1)	70.9
Reinsurers' share		75.9	50.0
Change in net provision for unearned premiums	14	18.8	120.9
Earned premiums, net of reinsurance		1,372.3	1,499.7
Allocated investment return transferred from the non-technical account	8	80.0	15.7
Claims incurred, net of reinsurance:			
Claims paid			
Gross amount		(844.8)	(934.4)
Reinsurers' share		47.8	124.6
Net claims paid		(797.0)	(809.8)
Change in the provision for claims			
Gross amount		(113.4)	21.3
Reinsurers' share		158.5	(13.5)
Change to the net provision for claims	15	45.1	7.8
Claims incurred, net of reinsurance		(751.9)	(802.0)
Net operating expenses	4	(588.2)	(626.3)
Balance on the general business technical account		112.2	87.1

All the amounts above are in respect of continuing operations.

Income Statement

Non-Technical Account – General Business

for the year ended 31 December 2016

	Notes	2016 \$m	2015 restated \$m
Balance on the general business technical account		112.2	87.1
Investment income	8	128.7	111.4
Unrealised (losses)/gains on investments	8	(8.9)	(78.3)
Investment expenses and charges	8	(5.3)	(5.7)
Allocated investment return transferred to the general business technical account		(80.0)	(15.7)
Exchange gains and losses		49.5	(22.3)
Profit for the financial year		196.2	76.5

There are no items of income or expense for this or the restated preceding period other than those reported in the Income Statement, thus no Statement of Comprehensive Income has been prepared.

Statement of Changes in Members' Balances

for the year ended 31 December 2016

	2016 \$m	2015 restated \$m
Balance due to member brought forward at 1 January	1,115.2	1,136.1
Profit for the financial year	196.2	76.5
Net distribution of closed year profits	(174.4)	(97.1)
Amounts due directly from member	-	(0.3)
Balance due to member carried forward at 31 December	1,137.0	1,115.2

Statement of Financial Position - Assets

for the year ended 31 December 2016

	Notes	2016 \$m	2015 restated \$m
Investments			
Financial investments	9	4,122.9	4,080.2
Reinsurers' share of technical provisions			
Claims outstanding	15	476.0	334.5
Provision for unearned premiums	14	208.8	141.8
		684.8	476.3
Debtors			
Debtors arising out of direct insurance operations	10	447.4	419.8
Debtors arising out of reinsurance operations		393.3	418.0
Other debtors		-	0.3
		840.7	838.1
Other assets			
Cash at bank and in hand	13	19.6	30.6
Other assets	12	77.4	132.3
		97.0	162.9
Prepayments and accrued income			
Accrued interest		28.4	32.5
Deferred acquisition costs	11	217.7	223.1
Other prepayments and accrued income		32.7	24.2
		278.8	279.8
Total Assets		6,024.2	5,837.3

Statement of Financial Position - Liabilities

as at 31 December 2016

	Notes	2016 \$m	2015 restated \$m
Members' balances			
Profit and loss account		1,137.0	1,115.2
Technical provisions			
Claims outstanding	15	3,377.6	3,442.3
Provision for unearned premiums	14	835.9	820.8
		4,213.5	4,263.1
Creditors			
Creditors arising out of direct insurance operations		3.3	4.3
Creditors arising out of reinsurance operations		418.8	327.8
Other creditors		169.7	68.5
		591.8	400.6
Accruals and deferred income		81.9	58.4
Total Liabilities		6,024.2	5,837.3

The annual accounts on pages 10 to 48 were approved by the Board of Liberty Managing Agency Limited and were signed on its behalf by

Nick Metcalf
Liberty Managing Agency Limited

21 March 2017

Statement of Cash Flows

for the year ended 31 December 2016

	Notes	2016 \$m	2015 restated \$m
Cash Flow			
Operating result		196.2	76.5
Decrease in gross technical provisions		(49.6)	(270.5)
Increase in reinsurers' share of gross technical provisions		(208.5)	(24.6)
Increase/(decrease) in debtors		(1.2)	39.6
Increase in creditors		214.7	53.1
Investment return		(114.5)	(27.4)
<i>Net cash flows from operating activities</i>		37.1	(153.3)
Cash flows from investing activities			
Purchase of equity and debt instruments		(2,724.8)	(2,051.0)
Sale of equity and debt instruments		2,658.1	2,024.0
Investment income received		123.4	105.7
Foreign exchange		68.8	143.8
<i>Net cash flows from investing activities</i>		125.5	222.5
Cash flows from financing activities			
Distribution of closed year profits		(120.1)	(248.5)
Cash injections to Funds in Syndicate		161.0	248.5
Closed year profit released to member		(215.3)	(97.1)
<i>Net cash flows from financing activities</i>		(174.4)	(97.1)
Net decrease in cash and cash equivalents		(11.8)	(27.9)
Cash and cash equivalents at beginning of year		57.8	91.8
Foreign exchange on cash and cash equivalents		(1.3)	(6.1)
Cash and cash equivalents at end of year		44.7	57.8
Cash at bank and in hand		19.6	30.6
Short term deposits with credit institutions		25.1	27.2
Cash and cash equivalents at end of year	13	44.7	57.8

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies

1.1. Statement of compliance

Syndicate 4472 is the vehicle on which (re)insurance business is conducted at Lloyd's on behalf of the corporate capital provider, Liberty Corporate Capital Limited (LCCL). The Syndicate is managed by Liberty Managing Agency Limited (LMAL). Registered details for the managing agent can be found on page 1. The financial statements cover those of the Syndicate and are prepared as at, and for the year ended, 31 December 2016.

The financial statements have been prepared in compliance with FRS 102 and FRS 103, being the applicable UK GAAP accounting standards, and in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (The Regulations 2008), and where appropriate the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (The Regulations) relating to insurance companies.

The financial statements are prepared under the historical cost convention except for financial investments which are measured at fair value.

An underwriting year basis of accounting has been applied to all classes of business written by the Syndicate.

1.2. Basis of preparation

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 21 March 2017.

The financial statements are prepared in United States Dollar (USD) which is the presentation and functional currency of the Syndicate and rounded to the nearest \$0.1m.

As permitted by FRS 103 the Syndicate has continued to apply the accounting policies that existed prior to this standard for its insurance contracts.

The Syndicate has elected to apply paragraph 6.3 of FRS 103 to claims development triangles where the Syndicate need not disclose information that occurred earlier than five years before the end of the first financial year in which this FRS applies, building up to 10 years of development with the introduction of each future period.

The Syndicate has elected to early-apply the March 2016 amendments to FRS 102, Fair value hierarchy disclosures. As a result the fair value hierarchy disclosures, including comparatives shown in Note 9 are now prepared on a basis consistent with the measurement of the financial instruments.

The 2015 comparative information has been restated. The Syndicate has changed its accounting policy for recognition and measurement of deferred acquisitions costs. Further details of the 2015 restatement of deferred acquisition costs is set out in note 2.1.

Further, the Syndicate has also restated the financial statements to correct the treatment of foreign exchange differences on brought forward net assets on transition to new UK GAAP details of which are disclosed in note 2.2.

1.3. Judgements and key sources of estimation uncertainty

1.3.1. Technical provisions

For insurance contracts, estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred, but not yet reported, at the reporting date (IBNR). It can take a significant period of time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.3. Judgements and key sources of estimation uncertainty (continued)

1.3.1. Technical provisions (continued)

The ultimate cost of outstanding claims is estimated by using a range of standard actuarial claims projection techniques, such as Chain Ladder and Bornhuetter-Ferguson methods. The main assumption underlying these techniques is that past claims development experience can be used to project future claims development and hence ultimate claims costs. As such, these methods extrapolate the development of paid and incurred losses based on the observed development of earlier years and expected loss ratios. Historical claims development is mainly analysed by underwriting years by significant lines of business. Large / Catastrophe claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development. In most cases, no explicit assumptions are made regarding future rates of claims inflation or loss ratios. Instead, the assumptions used are those implicit in the historical claims development data on which the projections are based. Additional qualitative judgement is used to assess the extent to which past trends may not apply in future, (e.g. to reflect one-off occurrences, changes in external or market factors such as public attitudes to claiming, economic conditions, levels of claims inflation, judicial decisions and legislation, as well as internal factors such as portfolio mix, policy features and claims handling procedures) in order to arrive at the estimated ultimate cost of claims that present the likely outcome from the range of possible outcomes, taking account of all the uncertainties involved.

Similar judgements, estimates and assumptions are employed in the assessment of ultimate premiums.

Further details are given in Note 16.

1.3.2. Estimates of future premiums

For certain insurance contracts, premium is initially recognised based on estimates of ultimate premiums. These estimates are judgemental and could result in misstatements of revenue recorded in the financial statements. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

1.3.3. Fair value of financial assets determined using valuation techniques

Where the fair value of financial assets recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of discounted cash flow models and/or other mathematical models. The inputs from these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. For fixed-income and asset-backed securities the judgments include considerations for liquidity risk, credit risk, and prepayment rates.

For discounted cash flow analysis, estimated future cash flows and discount rates are based on current market information and rates applicable to financial instruments with similar yields, credit quality and maturity characteristics. Estimated future cash flows are influenced by factors such as economic conditions (including country specific risks), concentrations of specific industries and market liquidity. Discount rates are influenced by risk-free interest rates and credit risk.

Changes in the assumptions about these factors could affect the reported fair value of the financial instruments. Further details are given in Note 9.

Notes to the Financial Statements

for the year ended 31 December 2016

1.4. Significant accounting policies

1.4.1 Financial investments

As permitted by FRS 102, the Syndicate has elected to apply the recognition and measurement provisions of IAS 39 Financial Instruments: recognition and measurement (as adopted for use in the EU) to account for all of its financial instruments.

The Syndicate classifies its financial assets on initial recognition. Redeemable debt securities and other fixed-income securities are classified as fair value through profit or loss and are initially measured at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Redeemable fixed-interest securities are reviewed for any permanent diminution in value periodically on a holding by holding basis. Where a permanent diminution is identified, an impairment is recognised as a realised investment loss in the income statement.

Deposits with credit institutions are also classified at fair value through profit or loss and are held at cost as the best measure for fair value. These typically consist of callable on-demand deposits with very short maturities, which are not always held to maturity, and cash letters of credit (LOCs).

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if there is a current enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, realise the assets and settle the liabilities simultaneously.

Shares and other variable yield securities and units in unit trusts consist of collective investment schemes and private equity investments. These are also designated on initial recognition as an asset to be measured at fair value with fair value changes recognised in profit or loss account at subsequent reporting periods. Realised gains and losses are also recognised through profit and loss account.

1.4.2 Cash and cash equivalents

The Syndicate has applied Part 1 General Rules and Formats of Schedule 2 to the Regulations as per FRS 102.7.20A whereby cash on the statement of financial position includes only cash and balances at central banks and loans and advances to banks repayable on demand.

Note 13 to the cash flow statement however discloses both cash at bank as well as short-term deposits with credit institutions. These consist of collateralised cash LOCs with a restriction of one month or less.

1.4.3 Fair value of financial assets

The Syndicate uses the following hierarchy for determining the fair value of financial instruments by valuation technique:

- Level 1: the unadjusted quoted prices in active market for identical assets or liabilities. Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price is usually the bid price.
- Level 2: when quoted prices are unavailable the instrument is valued using inputs that are observable either directly or indirectly including quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets.
- Level 3: when observable inputs are not available, unobservable inputs are used to measure fair value by use of valuation techniques. The objective of using the valuation technique is to estimate what the fair value would have been on the measurement date.

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.3. Fair Value of financial assets (continued)

Note 9 illustrates the fair value hierarchy as applied to the Syndicate's financial assets.

A financial asset or, when applicable, a part of a financial asset is derecognised when:

- The rights to the cash flows from the asset have expired; or

The Syndicate retains the right to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass through' arrangement and either (a) the Syndicate has transferred substantially all the risks and rewards of the asset; or (b) the Syndicate has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Syndicate has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards nor transferred control of the asset, the asset is recognised to the extent of the Syndicate's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Syndicate could be required to repay. In that case, the Syndicate also recognises an associated liability.

1.4.4 Investment return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised investment gains and losses, net of investment expenses, charges and interest. In accordance with FRS 102 29.19 Income Tax, dividends are recognised at the amount receivable including withholding tax if applicable, but excluding any attributable tax credit.

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

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. Investment return has been allocated to the technical account in respect of actual investment return on investments supporting the general insurance technical provisions and member balances. Any investment returns on investments that relate to undistributed profits on closed years remain in the non-technical account.

1.4.5 Financial liabilities

The Syndicate's financial liabilities consist of insurance creditors, intercompany balances and trade payables.

All financial liabilities are recognised initially at fair value. Intercompany balances are repayable on demand and are typically settled within one year. Intercompany balances are subsequently measured at amortised cost should they remain unsettled over a year. A financial liability is derecognised when the obligation under the liability is discharged or expires.

Insurance Contracts

1.4.6 Product Classification

Insurance contract are those contracts when the Company (the insurer) has accepted significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.6. Product Classification (continued)

specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the company determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire.

1.4.7. Premiums

Gross written premiums represent premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to business written in previous financial years, and are stated gross of commissions but net of taxes, duties levied on premiums and other deductions. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified. Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance or inwards reinsurance business.

1.4.8. Profit Commission

Profit Commission is charged by the managing agent at a rate of 17.5% of the profit on a year of account basis subject to the operation of a deficit clause. This is charged to the Syndicate as incurred but does not become payable until after the appropriate year of account closes at 36 months.

1.4.9. Claims

Claims include all claims occurring during the year, whether reported or not, related internal and external claims management costs that have been determined by an apportionment of employment costs, and any adjustments to claims outstanding from previous years.

Internal claims handling costs, including remuneration costs of the claims department, are reclassified from administrative expenses and included within claims incurred.

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

Technical Provisions

Technical provisions comprise claims outstanding, provisions for unearned premiums and provisions for unexpired risk.

1.4.10. Claims outstanding

Full provision is made on an individual case basis for the estimated cost of claims notified but not settled by the balance sheet date after taking into account handling costs and settlement trends. A provision for claims incurred but not reported (IBNR) is established from statistical analysis undertaken by the Syndicate's actuaries. The methods used and the estimates made are reviewed regularly. Significant delays are experienced in the notification and settlement of certain claims.

Whilst the Directors consider that the gross provision for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events. Any differences between provisions and subsequent settlements are dealt with in the technical accounts of later years.

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.10. Claims outstanding (continued)

In calculating the estimated cost of unpaid claims the Syndicate uses a variety of estimation techniques, generally based upon statistical analyses of historical experience, which assumes that the development pattern of current claims will be consistent with past experience.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which may cause the cost of unsettled claims to change when compared with the cost of previously settled claims including:

- changes in Syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods
- changes in the legal environment
- the effects of inflation
- changes in the mix of business
- the impact of large losses
- movement in industry benchmarks

A component of these estimation techniques is usually the estimation of the cost of notified but not paid claims. In estimating the cost of these the Syndicate has regard to claim circumstances as reported, and information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods.

Large claims impacting each relevant business class are assessed separately where appropriate, being measured on a case-by-case basis or projected separately in order to allow for the possible distortive effect of the development and incidence of the large claims.

The provision for claims outstanding is based on information available at the balance sheet date and is estimated to give a result within a normal range of outcomes. To the extent that the ultimate cost falls outside this range, for example where assumptions over claims inflation may alter in future, there is a contingent liability in respect of this uncertainty. Provisions are calculated allowing for reinsurance recoveries and a separate asset is recorded for the reinsurers' share, having regard to collectability.

The reinsurers' share of provisions for claims is based on the amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the 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.

Anticipated salvage and subrogation recoveries are calculated on an individual case basis. The level of recovery estimated is set on the basis of information which is currently available, including potential outstanding claims advices and case law. Salvage and subrogation recoveries are included in claims incurred in the income statement.

1.4.11. Provisions for unearned premiums

Unearned premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Written premiums are recognised as earned over the period of the policy on a time apportionment basis having regard, where appropriate, to the incidence of risk. The provision for unearned premiums is calculated on a daily pro rata basis. The proportion attributable to subsequent periods is deferred as a provision for unearned premiums.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts, and over the term of the reinsurance contract for losses-occurring contracts.

1.4.12. Provisions for unexpired risks

Provision is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.12. Provisions for unexpired risks (continued)

of deferred acquisition costs. The overall assessment of whether a provision is necessary is made on the basis of all categories of business. No account is taken of future investment income.

At 31 December 2016 and in the comparative year, the Syndicate did not have an unexpired risks provision.

1.4.13. Deferred acquisition costs

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts, the renewal of existing insurance contracts and the deferral of other costs directly related and incremental to successful acquisition of a new or renewed insurance contract, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

Deferred acquisition costs are amortised over the period in which the related premiums are earned.

The reinsurers' share of deferred acquisition costs is amortised in the same manner as the underlying asset. Amortisation is reported in the technical account.

Commissions receivable on outwards reinsurance contracts are amortised over the term of the outwards reinsurance premiums and deferred to the extent that they are attributable to outwards reinsurance premiums unearned as at the balance sheet date.

1.4.14. Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date, or more frequently, when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Syndicate may not receive all outstanding amounts due under the terms of the contract, and the event has a reliably measurable impact on the amounts that the Syndicate will receive from the reinsurer. The impairment loss is recorded in the income statement.

1.4.15. Insurance receivables

Insurance receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. Subsequent to initial recognition, insurance receivables are measured at amortised cost, using the effective interest rate method.

1.4.16. Insurance payables

Insurance payables are recognised when due and measured on initial recognition at the fair value of the consideration paid or payable less directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest rate method.

Notes to the Financial Statements

for the year ended 31 December 2016

1. Accounting Policies (continued)

1.4. Significant accounting policies (continued)

1.4.17. Pension Costs

Liberty Specialty Markets Limited (LSML) operates a defined contribution pension scheme. Pension contributions relating to managing agency staff working on behalf of the Syndicate, as seconded from LSML are charged to the Syndicate and included within net operating expenses.

LMAL operates a defined benefit pension scheme, which provides benefits based on final pensionable pay for all qualifying employees. Costs in respect of the scheme relating to managing agency staff working on behalf of the Syndicate are charged to the Syndicate.

1.4.18. Foreign Currencies

The Syndicate's functional currency and its presentational currency are USD.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions, or at an appropriate average rate. Monetary assets and liabilities (which include unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

These exchange differences are recorded in the non-technical account.

1.4.19. Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from Syndicate trading income. In addition, all UK basic-rate income tax deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year are included in the balance sheet under the heading 'Other Debtors'.

No provision has been made for any overseas tax payable by the corporate member on underwriting results.

Notes to the Financial Statements

for the year ended 31 December 2016

2. 2015 Comparative Restatement

2.1 Change in accounting policy: recognition of deferred acquisition costs

Until 31 December 2015, the Syndicate adopted a policy of deferring only external commission costs which vary with, and are primarily related to, the acquisition of new insurance contracts and the renewal of existing insurance contracts, to the extent that they are attributable to premiums unearned at the balance sheet date.

During 2016, the Syndicate implemented a new policy, extending deferral to other costs directly related and incremental to successful acquisition activities of a new or renewed insurance contract. The acquisition costs that can be capitalised under the revised policy include incremental direct costs that meet the criteria referred to above, and typically include a portion of an employee's salary and benefits that are directly related to time spent on identifiable acquisition activities, as well as other clearly identifiable acquisition costs.

The Syndicate adopted this policy in order to achieve consistency with the treatment adopted in the financial statements of Liberty International Holdings Incorporated, and to provide a fairer presentation of the results and financial position of the Syndicate, bearing in mind the need to align recognition of costs with associated income. The 2015 deferred acquisition costs was restated based on the new policy.

	Effect on 2016 \$m	Effect on 2015 \$m	Effect on 2014 and prior \$m
Increase in profit	-	3.3	9.7
Increase in members' balance	13.0	13.0	9.7
Total Increase in DAC	13.0	13.0	9.7

2.2 Foreign exchange losses arising from brought forward net assets

At the time of transition to FRS 102 and 103, the Syndicate revalued its opening member's balances. Instead of taking the foreign exchange differences to the non-technical account of the income statement, it was incorrectly taken to other comprehensive income. During the current year, this has been reversed and the financial statements have been restated to reflect the change.

The effect of the correction has been to decrease the profit for the year ended 31 December 2015 by \$35.6m and increase OCI by the equivalent amount. This has no impact on members' balance.

Notes to the Financial Statements

for the year ended 31 December 2016

3. Segmental Analysis

An analysis of the underwriting result before investment return is set out below:

	Gross premiums written \$m	Gross premiums earned \$m	Gross claims incurred \$m	Gross operating expenses \$m	Re- insurance balance \$m	Total \$m
2016						
Direct insurance:						
Accident & Health	53.9	64.6	(30.7)	(31.7)	(6.3)	(4.1)
Motor (third-party liability)	14.3	15.1	(16.9)	(5.1)	2.1	(4.8)
Motor (other classes)	11.8	9.1	(12.7)	(3.0)	12.7	6.1
Marine aviation & transport	168.9	160.7	(90.4)	(62.4)	(7.5)	0.4
Fire & other damage to property	360.9	341.4	(192.9)	(118.5)	(29.0)	1.0
Third party liability	410.0	367.0	(247.9)	(107.1)	(85.7)	(73.7)
Miscellaneous	244.2	238.8	(160.9)	(101.3)	(9.8)	(33.2)
	1,264.0	1,196.7	(752.4)	(429.1)	(123.5)	(108.3)
Reinsurance	566.6	576.8	(205.8)	(265.3)	34.8	140.5
Total	1,830.6	1,773.5	(958.2)	(694.4)	(88.7)	32.2

Notes to the Financial Statements

for the year ended 31 December 2016

3. Segmental analysis (continued)

	Gross premiums written \$m	Gross premiums earned \$m	Gross claims incurred \$m	Gross operating expenses \$m	Re- insurance balance \$m	Total \$m
2015 restated						
Direct insurance:						
Accident & Health	69.6	74.4	(39.2)	(35.5)	(5.8)	(6.1)
Motor (third-party liability)	17.2	37.6	(49.7)	(12.8)	0.3	(24.6)
Motor (other classes)	7.6	35.9	(51.5)	(12.0)	6.4	(21.2)
Marine aviation & transport	161.2	160.8	(66.8)	(58.6)	(20.8)	14.6
Fire & other damage to property	347.0	374.3	(138.9)	(133.3)	(59.5)	42.6
Third party liability	343.9	285.0	(186.2)	(86.5)	(38.8)	(26.5)
Miscellaneous	247.4	268.2	(164.3)	(120.9)	(9.5)	(26.5)
	1,193.9	1,236.2	(696.6)	(459.6)	(127.7)	(47.7)
Reinsurance	569.3	597.9	(216.5)	(235.6)	(26.7)	119.1
Total	1,763.2	1,834.1	(913.1)	(695.2)	(154.4)	71.4

Reinsurers' commissions and profit participations are included in the reinsurance balance.

Commissions on direct insurance gross premiums written during 2016 were \$343.1m (2015: \$311.7m).

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

	2016 \$m	2015 \$m
UK	96.8	410.8
Other EU Countries	208.2	333.3
Americas	595.3	618.8
Worldwide	930.3	400.3
Total	1,830.6	1,763.2

Notes to the Financial Statements

for the year ended 31 December 2016

4. Net Operating Expenses

	2016	2015
	\$m	restated \$m
Acquisition costs	(464.7)	(430.2)
Change in deferred acquisition costs	6.7	(20.3)
Administrative expenses	(236.4)	(244.7)
Gross operating expenses	(694.4)	(695.2)
Reinsurance commissions receivable	106.2	68.9
Net operating expenses	(588.2)	(626.3)

The member's standard personal expenses are included within administrative expenses and include Lloyd's subscriptions, New Central Fund contributions, Managing Agent's fees and profit commission.

5. Staff costs and Directors' remuneration

5.1. Staff costs

All staff are employed by Liberty Specialty Markets Limited. Employees are seconded to the Managing Agent to perform work on the Syndicate, for and on behalf of the member. The following amounts were recharged from the Managing Agent to Syndicate 4472 in respect of salary costs:

	2016	2015
	\$m	\$m
Wages and salaries	86.9	101.1
Social security costs	11.6	10.7
Other pension costs	5.9	5.3
Other	4.9	4.0
Total	109.3	121.1

The average number of employees seconded to the Managing Agent by Liberty Specialty Markets Ltd to work on the Syndicate during the year was as follows:

	2016	2015
	Number	Number
Administration and finance	239	227
Underwriting	122	123
Claims	35	36
Total	396	387

Notes to the Financial Statements

for the year ended 31 December 2016

5. Staff costs and Directors remuneration (continued)

5.2. Directors' remuneration

	2016 \$m	2015 \$m
Emoluments	2.4	3.2

During the year the Directors of the Managing Agent provided services to Syndicate 4472. The amounts shown above are the full amounts recharged to Syndicate 4472 in respect of Directors' emoluments for these services.

6. Auditors' remuneration

Auditors' remuneration is included as part of the administrative expenses in note 4 to the financial statements.

	2016 \$m	2015 \$m
Auditor's remuneration:		
- Audit of Syndicate annual accounts	0.7	0.8
- Other services pursuant to Regulations and Lloyd's Byelaws	0.2	0.2
- Other non-audit services	0.4	0.4
Total	1.3	1.4

7. Active underwriter emoluments

The position of Active Underwriter received remuneration of \$555,000 (2015: \$676,000) charged to the Syndicate and included within net operating expenses.

Notes to the Financial Statements

for the year ended 31 December 2016

8. Investment return

	Technical account		Non Technical account			Total
	General	business				
	2016	2015	2016	2015	2016	2015
	\$m	\$m	\$m	\$m	\$m	\$m
Income from other financial investments	79.3	90.5	33.8	31.2	113.1	121.7
Net losses on realisation of investments	9.6	(8.3)	6.0	(2.0)	15.6	(10.3)
Total investment income	88.9	82.2	39.8	29.2	128.7	111.4
Net unrealised gains/(losses) on investments	(5.6)	(62.3)	(3.3)	(16.0)	(8.9)	(78.3)
Investment expenses and charges	(3.3)	(4.2)	(2.0)	(1.5)	(5.3)	(5.7)
Total investment return	80.0	15.7	34.5	11.7	114.5	27.4

9. Financial investments

	Carrying Value	Purchase Price	Listed
	\$m	\$m	\$m
2016			
Shares and other variable yield securities and units in unit trust	100.1	103.4	73.7
Debt securities and other fixed income securities	3,678.8	3,684.6	545.5
Loans secured by mortgage	318.9	322.5	-
Deposits with credit institutions	25.1	25.1	-
Total	4,122.9	4,135.6	619.2

	Carrying Value	Purchase Price	Listed
	\$m	\$m	\$m
2015			
Shares and other variable yield securities and units in unit trust	120.2	119.7	100.4
Debt securities and other fixed income securities	3,532.0	3,606.4	881.9
Loans secured by mortgage	400.8	404.1	-
Deposits with credit institutions	27.2	27.2	-
Total	4,080.2	4,157.4	982.3

Notes to the Financial Statements

for the year ended 31 December 2016

9. Financial investments (continued)

All shares and other variable yield securities, debt securities and loans and deposits with credit institutions are designated at fair value through profit & loss.

The following table shows financial investments recorded at fair value analysed between the three levels in the fair value hierarchy.

Fair Value Hierarchy				
	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
2016				
Shares and other variable yield securities and units in unit trusts	73.7	-	26.4	100.1
Debt securities and other fixed income securities	605.7	3,073.1	-	3,678.8
Loans and deposits with credit institutions	53.9	367.5	-	421.4
Total	733.3	3,440.6	26.4	4,200.3
	Level 1	Level 2	Level 3	Total
	\$m	\$m	\$m	\$m
2015				
Shares and other variable yield securities and units in unit trusts	100.4	-	19.8	120.2
Debt securities and other fixed income securities	881.9	2,642.0	8.1	3,532.0
Loans and deposits with credit institutions	60.2	500.1	-	560.3
Total	1,042.5	3,142.1	27.9	4,212.5

Included within the Level 1 category are unadjusted quoted prices in active markets for identical assets that the Syndicate's asset manager has the ability to access at the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and is used to measure fair value whenever available, except as follows:

If the Syndicate holds a large number of similar assets that are required to be measured at fair value, a quoted price in an active market might be available but not readily accessible for each of those assets individually. In that case, fair value may be measured using an alternative pricing method that does not rely exclusively on quoted prices (for example, matrix pricing) as a practical expedient. However, the use of an alternative pricing method renders the fair value measurement a lower level in the fair value hierarchy.

In some situations, a quoted price in an active market might not represent fair value at the measurement date. That might be the case if, for example, significant events (principal-to-principal transactions, brokered trades, or announcements) occur after the close of a market but before the measurement date.

If the quoted price is adjusted for new information, the adjustment renders the fair value measurement a lower level in the fair value hierarchy.

Level 2 inputs are inputs other than quoted prices that are either directly or indirectly observable in the market. If the asset has a specified contractual term, a Level 2 input must be observable for substantially the full term of the asset

Adjustments to Level 2 inputs may vary depending on factors specific to the asset type. Those factors include the condition and/or location of the asset, the extent to which the inputs relate to items that are comparable to the asset, and the volume and level of activity in the markets within which the inputs are observed. An adjustment that is significant to the fair value measurement in its entirety might render the

Notes to the Financial Statements

for the year ended 31 December 2016

9. Financial investments (continued)

measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall.

Level 3 inputs are unobservable inputs for the asset. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset at the measurement date. Unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability including assumptions about risk. Unobservable inputs are developed based on the best information available in the circumstances.

All manually priced broker quotes are non-binding. The Portfolio Manager makes an assessment of the reasonableness of the broker quote received. Based on the Portfolio Manager's assessment, additional quotes may be obtained to support the fair value of an investment, in which case, the average of those quotes is used as the fair value of the investment. The Portfolio Manager provides support for the manual price and the Investment Team determines the appropriate level (level 2 or level 3) for the security. Manually priced broker quotes obtained on an individual case basis that cannot be substantiated to represent an executable/ exit price are classified as level 3. If the security was actively traded (with significant volume) within a thirty day period from the last day it was manually priced, evidence of the active trade with a broker quote is appropriate documentation to classify the security a level 2. When the average of multiple broker quotes is used, the level (2 or 3) is determined based on whether or not those quotes can be substantiated.

The Syndicate asset portfolio includes Private Equity investments. These have all been classified as Level 3 based on the criteria above. The Group Portfolio Manager receives partnership statements / financial statements for each investment from which the residual values are recorded, and then potentially adjusted when combined with adjusted ending value reports. The Group Portfolio Manager then recommends a valuation for each position, based on these statements and their own assessment/judgement.

10. Debtors arising out of Direct Insurance Operations

	2016 \$m	2015 \$m
Intermediaries	447.4	419.8

11. Deferred acquisition costs

	2016 \$m	2015 restated \$m
At 1 January	223.1	252.9
Change in deferred acquisition costs	6.7	(20.2)
Foreign exchange	(12.1)	(9.6)
At 31 December	217.7	223.1

Notes to the Financial Statements

for the year ended 31 December 2016

12. Other Assets

Other assets comprise overseas deposits which are lodged as a condition of conducting underwriting business in certain countries.

13. Cash and cash equivalents

	2016 \$m	2015 \$m
Cash at bank and in hand	19.6	30.6
Short-term deposits with credit institutions	25.1	27.2
Total	44.7	57.8

14. Provisions for Unearned Premiums

	Gross \$m	Reinsurers' Share \$m	Net \$m
2016			
At 1 January 2016	820.8	(141.8)	679.0
Premiums written in the year	1,830.6	(477.1)	1,353.5
Premiums earned in the year	(1,773.5)	401.2	(1,372.3)
Foreign exchange	(42.0)	8.9	(33.1)
At 31 December 2016	835.9	(208.8)	627.1

	Gross \$m	Reinsurers' Share \$m	Net \$m
2015			
At 1 January 2015	927.8	(94.7)	833.1
Premiums written in the year	1,763.2	(384.4)	1,378.8
Premiums earned in the year	(1,834.1)	334.4	(1,499.7)
Foreign exchange	(36.1)	2.9	(33.2)
At 31 December 2015	820.8	(141.8)	679.0

Notes to the Financial Statements

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15. Claims Outstanding

	Gross	Reinsurers'	Net
2016	\$m	share	\$m
At 1 January 2016	3,442.3	(334.5)	3,107.8
Claims incurred during the year	958.2	(206.3)	751.9
Claims paid during the year	(844.8)	47.8	(797.0)
Foreign exchange	(178.1)	17.0	(161.1)
At 31 December 2016	3,377.6	(476.0)	2,901.6

	Gross	Reinsurers'	Net
2015	\$m	share	\$m
At 1 January 2015	3,605.8	(357.0)	3,248.8
Claims incurred during the year	913.1	(111.1)	802.0
Claims paid during the year	(934.4)	124.6	(809.8)
Foreign exchange	(142.2)	9.0	(133.2)
At 31 December 2015	3,442.3	(334.5)	3,107.8

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk management

16.1. Governance framework

The objective of LSM's Risk Management and Internal Control Framework (RMF) is to enable it to engage with risks in a controlled fashion that is consistent with the Board's appetite and its available capital capacity while retaining the ability to implement its long term business plans and meet its obligations to policyholders. It sets out the Syndicate's approach to, how it defines risk and cascades risk appetite and the processes for ensuring the appropriate and timely identification, reporting, monitoring and management of risk and capital. The Syndicate's senior management recognise the importance of maintaining an efficient and effective risk management system.

The RMF establishes the governance of the risk management activities undertaken within the Syndicate, including the setting of roles and responsibilities, outlining the key risk management concepts and providing a clear structure linking the individual risk policies, processes and procedures. The RMF is owned by the Board.

The key concepts includes the linkage of business strategy to risk management strategy, the identification of emerging risks, the risk universe, the management of risks through the setting of risk appetites and the creation, maintenance, recording and testing of internal controls.

The Syndicate has an established Risk Management function (which includes the Risk Management department under the Chief Risk Officer (CRO), and processes within the Capital Management and Actuarial departments), with oversight from the Risk Management Committee (a sub-committee of the Board) chaired by an independent non-executive director; the terms of reference incorporate the CRO's ability to convene a meeting independently of the executive management. In addition, the terms of reference for relevant management committees incorporate risk management responsibilities as delegated by the Board.

The Syndicate recognises that all staff have a role to play in managing the risks faced by the company. This reflects the three lines of defence model adopted by the Syndicate, consistent with market best practice, which emphasises the different roles in managing risk played by business units, advisory functions such as Risk Management, and independent assurance providers such as Internal Audit. The roles and responsibilities are documented in the risk policies, which are owned by the Board and adhere to the Syndicate's documentation standards. Each risk policy is owned by a member of the Executive Management Committee. The policies include the activities of identification, quantification, management and reporting on risks; including reporting on the performance of controls and the Syndicate's actual risk position against the Board risk appetite. The Syndicate undertakes extensive work to validate the quantification of its risk profile using the Internal Model including the use of sensitivity testing, and stress and scenario testing. The Syndicate's risk profile is reported to the Board via the ORSA and the Chief Risk Officer's report.

16.2. Capital management objectives, policies and approach

16.2.1. Capital framework at Lloyds

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000.

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and the Solvency 1 figures are no longer applicable from that date. Although the capital regime has changed, this has not significantly impacted the Solvency Capital requirement of the syndicate, since this has been previously calculated based on Solvency II principles, as described below.

Within the supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II capital requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.2. Capital management objectives, policies and approach (continued)

16.2.1. Capital framework at Lloyds (continued)

level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 4472 is not disclosed in these financial statements.

16.2.2. Lloyd's capital setting process

In order to meet Lloyd's requirements, each Syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR 'to ultimate'). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each Syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participating but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

16.2.3. Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (funds at Lloyd's), held within and managed within a Syndicate (funds in Syndicate) or as the member's share of the members' balances on each Syndicate on which it participates.

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the statement of financial position, represent resources available to meet members' and Lloyd's capital requirements.

16.3. Insurance risk

Insurance risk incorporates premium risk and reserve risk. Premium risk is the variation of underwriting results from plan for reasons other than operational or insurance counterparty risk. This is influenced by the frequency and severity of claims events.

Reserve risk is the variation in policyholder reserves for prior accident years required for reasons other than operational or insurance counterparty risk. This is influenced by uncertainty in the notification of claims and value of claims paid.

Premium risk is mitigated through the use of a diversified business plan operating within Board risk appetites and supported through the Syndicate's control environment, including underwriting controls. Reinsurance is utilised to mitigate against exposure to individual and correlated events. Reinsurance is purchased on both a proportional and non-proportional basis. The majority of the proportional

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.3. Insurance risk (continued)

reinsurance is purchased on a quota share basis; this is designed to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is purchased on an excess of loss and stop loss basis. The excess of loss reinsurance is purchased on both a per-risk and catastrophe basis covering natural and non-naturally occurring perils. The stop loss is purchased on a net underwriting loss basis to protect the Syndicate's overall solvency. The non-proportional reinsurance is purchased to mitigate against shock losses to individual underwriting product lines and to protect the Syndicate's balance sheet from catastrophe losses on a multi-line basis.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. The use of reinsurance exposes the Syndicate to a counterparty credit exposure; this is reported under credit risk.

The Syndicate business plan is developed in accordance with the LSM's Board risk appetites to reduce the variability of the underwriting profit through the creation of a diversified portfolio of insurance contracts. The Syndicate's portfolio of general insurance contracts is spread across multiple product lines, industry sectors and geographic regions. The Syndicate writes both insurance and reinsurance contracts; both of which predominantly cover twelve months duration. Contracts are written by specialised underwriting teams in accordance to the business plan and the underwriting controls.

Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the Syndicate's risk exposure. The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business.

Exposure to concentrations arising from the insurance contracts is a material risk to the Syndicate. The Board risk appetites include specific exposure management limits; these are cascaded down to individual underwriting portfolios. The concentrations are tiered in accordance to the Syndicate's exposure management policies; with the resulting tier determining the appropriate methodology for quantification. The Syndicate supports its internal quantification of exposure concentrations by utilising external, commercially available exposure management models. Exposure management models are validated to ensure they are parameterised appropriately for the Syndicate's portfolio, however, there remains a risk that the assumptions and techniques used in these models are unreliable or that claims arising from an unmodelled event are greater than those arising from a modelled event.

As a further guide to the level of concentration of exposure the Syndicate writes, the following table shows the Syndicate's exposure to its three largest natural catastrophe perils:

Peril region	Industry Loss \$m	Syndicate Loss Gross \$m	Syndicate Loss Final Net \$m
North American Hurricane	220,338.6	784.6	371.9
European Wind	39,196.0	711.5	378.6
North American Earthquake	80,711.7	790.4	363.0

Reserve risk is mitigated through the use of detailed analysis performed by the Reserving Committee, including regular assessment of the results of actuarial studies, claims analysis, underwriting reviews and benchmarking exercises. In addition, business plans are developed to ensure that the long term reserve profile of the Syndicate remains stable.

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.3. Insurance risk (continued)

The table below sets out the concentration of outstanding claim liabilities by type of contract:

	31 December 2016			31 December 2015		
	Gross liabilities \$m	Reinsurance of liabilities \$m	Net liabilities \$m	Gross liabilities \$m	Reinsurance of liabilities \$m	Net liabilities \$m
Commercial	480.6	(205.0)	275.6	484.7	(131.6)	353.1
Reinsurance	2,334.6	(222.3)	2,112.3	2,377.2	(113.8)	2,263.4
Specialty	1,398.3	(257.5)	1,140.8	1,401.2	(230.9)	1,170.3
Total	4,213.5	(684.8)	3,528.7	4,263.1	(476.3)	3,786.8

The geographical concentration of the outstanding claim liabilities is noted below. The disclosure is based on the countries where business is written.

	31 December 2016			31 December 2015 restated		
	Gross liabilities \$m	Reinsurance of liabilities \$m	Net liabilities \$m	Gross liabilities \$m	Reinsurance of liabilities \$m	Net liabilities \$m
UK	3,144.4	(582.2)	2,562.2	2,869.8	(200.7)	2,669.1
Other EU Countries	501.4	(49.6)	451.8	773.0	(187.7)	585.3
USA	31.6	(5.0)	26.6	27.8	(30.1)	(2.3)
Worldwide	536.1	(48.0)	488.1	592.5	(57.8)	534.7
Total	4,213.5	(684.8)	3,528.7	4,263.1	(476.3)	3,786.8

The 2015 comparative of the table above has been restated to show a more appropriate view of geographic concentrations.

Key Assumptions

The principal assumption underlying the liability estimates is that the future claims development will follow a similar pattern to past claims development experience. This includes assumptions in respect of paid and incurred claims, claim handling costs and claim inflation factors for each underwriting year. Additional qualitative judgements are used to assess the extent to which past trends may not apply in the future, for example: once-off occurrence; changes in market factors such as public attitude to claiming; economic conditions; as well as internal factors such as portfolio mix, delays in settlement, policy conditions, and claims handling procedures. Judgement is further used to assess the extent to which external factors such as judicial decisions and government legislation affect the estimates.

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.3. Insurance risk (continued)

Sensitivities

There is a wide range of possible outcomes in assessing the technical provisions due to the uncertainty associated in estimating ultimate claims and premiums for the business written.

For all actuarial projections the final outcome will depend on the actual development of claims which in turn relies upon the appropriateness of the historic data to predict the likely development by class.

Unforeseen changes may affect the suitability of that data and would be expected to have an impact on the accuracy of the results and increased uncertainty in the projections. Such issues would include unexpected claims inflation, shocks to the global economy, changes in legislation and the emergence of new types of claim.

The results and accuracy of some underwriting classes can be sensitive to the performance of certain key contracts, either through large exposures or through a large volume of business being written under the contract, relative to the size of the account. For example our Motor XL account is affected by a number of PPOs (Periodical Payment Orders) where there is uncertainty in the payment size of future claims. Additionally ultimate claims are highly dependent on exposure to and the future incidence of catastrophe events, either natural or man-made.

A large proportion of the Technical Provisions are in long-tail casualty classes, which increases the uncertainty relative to other classes of business. Estimates make no provision for potential and uncertainty of future claims arising from new latent causes or classes of claim not as yet materially recognised in the historical experience.

An increasingly significant amount of business is also written through coverholders which also increases the uncertainty of the business being written.

The outwards treaty reinsurance programme is predominantly denominated in Euro and USD – any recoverable event that is not settled in either of these currencies materially increases the uncertainty in the estimation of the recoveries due to movements in the foreign exchange rate from now until the date of settlement.

Significant assumptions for the Syndicate did not materially change from the previous period.

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date. The cumulative claims estimates and cumulative payments are translated into USD at the period end rate as at 31 December 2016. The claims development information disclosed is being increased from five years to ten years over the period 2016 - 2020.

Gross Insurance contract outstanding claims provision as at 31 December 2016:

	2010 and prior	2011	2012	2013	2014	2015	2016	Total
Estimate of cumulative claims	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At end of underwriting year		571.0	482.2	472.0	487.1	441.0	515.6	
One year later		976.9	876.1	977.6	970.8	884.5		
Two years later		1,019.0	908.8	980.1	1,066.6			
Three years later		977.9	916.0	957.0				
Four years later		948.0	880.8					
Five years later		936.6						
Cumulative payments		744.8	599.8	623.4	521.5	248.1	39.9	
Estimated balance to pay	914.0	191.8	281.0	333.6	545.1	636.4	475.7	3,377.6

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.3. Insurance risk (continued)

Net insurance contract outstanding claims provision as at 31 December 2016:

Estimate of cumulative claims	2010 and prior \$m	2011 \$m	2012 \$m	2013 \$m	2014 \$m	2015 \$m	2016 \$m	Total \$m
At end of underwriting year		472.9	409.9	428.2	442.7	385.1	413.9	
One year later		806.9	791.6	887.3	879.4	751.1		
Two years later		843.6	815.8	880.6	936.9			
Three years later		815.1	830.6	841.6				
Four years later		796.1	799.1					
Five years later		778.8						
Cumulative payments		590.0	534.5	548.9	479.2	238.5	39.7	
Estimated balance to pay	811.0	188.8	264.6	292.7	457.7	512.6	374.2	2,901.6

16.4. Financial risk

16.4.1. Credit risk

16.4.1.1. Credit risk

Credit risk is the risk of financial change in value due to actual credit losses deviating from expected credit losses due to the failure of another party to meet its contractual debt obligations.

The following policies and procedures are in place to mitigate the Syndicate's exposure to credit risk:

- Robust governance structures with the Board setting headline risk appetites and cascading this down to the rest of the business, with relevant risk mitigation strategies implemented including robust controls and monitoring of key risk indicators.
- A credit risk policy and procedure document setting out the framework for what constitutes credit risk for the Syndicate. The policy and procedure document is regularly reviewed for pertinence and for changes in the credit risk environment. Compliance with Syndicate policies and procedures is monitored, and exposures and breaches are reported to the relevant committee. All committees meet on a regular basis, with exception meetings held if necessary.
- Ensuring counterparties are within risk appetite by dealing with companies that have a good credit rating or financial standing and active mitigation of credit risk by obtaining collateral or financial guarantees where necessary and thereafter ensuring appropriate monitoring.
- From an investment perspective, credit risk captures the potential loss due to default or migration to a lower rating. An Investment Management Policy sets out the assessment and determination of what constitutes credit risk (as a subset of market risk). Compliance with the policy is monitored; exposures and any breaches are reported to the Investment Committee. The policy is reviewed regularly. Limits are set for financial investments; a minimum overall average credit rating must be maintained in addition to minimum rating requirements per asset.

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for the year ended 31 December 2016

16. Risk Management (continued)

16.4. Financial risk (continued)

16.4.1. Credit risk (continued)

16.4.1.1. Credit risk – Rating

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position.

	Neither due nor impaired \$m	Financial assets that are past due but not impaired \$m	Financial assets that have been impaired \$m	Total \$m
2016				
Debt securities	3,675.6	-	3.2	3,678.8
Loans with credit institutions	318.9	-	-	318.9
Deposits with credit institutions	25.1	-	-	25.1
Overseas deposits as investments	77.4	-	-	77.4
Reinsurer' share of claims outstanding	476.0	-	-	476.0
Reinsurance debtors	6.6	5.2	-	11.8
Cash at bank and in hand	19.6	-	-	19.6
Insurance debtors	408.0	39.4	-	447.4
Other debtors	869.1	-	-	869.1
Total credit risk	5,876.3	44.6	3.2	5,924.1

	Neither due nor impaired \$m	Financial assets that are past due but not impaired \$m	Financial assets that have been impaired \$m	Total \$m
2015				
Debt securities	3,526.4	-	5.6	3,532.0
Loans with credit institutions	400.8	-	-	400.8
Deposits with credit institutions	27.2	-	-	27.2
Overseas deposits as investments	132.3	-	-	132.3
Reinsurer' share of claims outstanding	334.5	-	-	334.5
Reinsurance debtors	6.6	28.8	-	35.4
Cash at bank and in hand	30.6	-	-	30.6
Insurance debtors	385.5	34.3	-	419.8
Other debtors	804.5	-	-	804.5
Total credit risk	5,648.4	63.1	5.6	5,717.1

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.4. Financial risk (continued)

16.4.1. Credit risk (continued)

16.4.1.1. Credit risk – Rating (continued)

The tables below provide information regarding the credit risk exposure of the syndicate at 31 December 2015. Assets have been classified by way of a waterfall approach. Three rating agents are used in this analysis where possible. Where each of the three provide a rating, the median is selected. However, where at least two of the ratings are equivalent, the majority prevails. If only two ratings are provided, then prudence prevails and the lower of the two is selected. Where only one rating is obtainable, that rating is used. Internal ratings are then applied for those instances where an external rating does not exist.

Credit rating relating to financial assets that are neither past due nor impaired

	AAA	AA	A	BBB	<BBB	Not Rated	Total
2016	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shares and other variable yield securities and unit trust	-	30.0	0.1	43.6	-	26.4	100.1
Debt securities	876.5	806.8	1,058.6	885.0	48.7	-	3,675.6
Loans with credit institutions	48.0	73.8	2.5	-	194.6	-	318.9
Deposits with credit institutions	-	-	-	25.1	-	-	25.1
Overseas deposits as investments	44.9	9.1	10.1	4.7	-	8.6	77.4
Reinsurer' share of claims outstanding	-	94.9	350.9	-	0.1	30.1	476.0
Reinsurance debtors	-	0.5	6.1	-	-	-	6.6
Cash at bank and in hand	-	12.4	20.9	(13.7)	-	-	19.6
Total credit risk	969.4	1,027.5	1,449.2	944.7	243.4	65.1	4,699.3

Credit rating relating to financial assets that are neither past due nor impaired

	AAA	AA	A	BBB	<BBB	Not Rated	Total
2015	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Shares and other variable yield securities and unit trust	-	9.3	60.2	30.9	-	19.8	120.2
Debt securities	1,195.8	630.3	875.9	806.1	18.3	-	3,526.4
Loans with credit institutions	350.0	3.4	3.3	39.2	4.9	-	400.8
Deposits with credit institutions	-	-	-	27.2	-	-	27.2
Overseas deposits as investments	81.1	27.7	15.1	7.7	0.3	0.4	132.3
Reinsurer' share of claims outstanding	-	86.0	230.4	-	0.1	18.0	334.5
Reinsurance debtors	-	0.8	5.3	-	-	0.5	6.6
Cash at bank and in hand	-	-	25.0	(1.7)	-	7.3	30.6
Total credit risk	1,626.9	757.5	1,215.2	909.4	23.6	46.0	4,578.6

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.4. Financial risk (continued)

16.4.1. Credit risk (continued)

16.4.1.1. Credit risk – Rating (continued)

Maximum Credit Exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit risk portfolio. This enables management to focus on the applicable risks and comparison of credit exposures. The attributable financial ratings are assessed and updated regularly. During the year all live counterparties were within acceptable limits and had acceptable ratings, there were no breach of set limits.

The amount of change during the period in the fair value of financial instruments held at fair value through profit and loss attributable to changes in credit risk was \$3.3m (2015: \$4.4m).

There was no material change in fair value for financial instruments held at fair value attributable to own credit risk in the current or comparative period.

There have been no day 1 profits recognised in respect of financial instruments designated at fair value through profit or loss.

Collateral

Credit Risk is also mitigated by entering into collateral agreements. The Investment Committee monitors the market value, credit quality and asset type of the collateral. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty, with the relevant procedures being completed and management having to give sign off regarding the acceptability of types of collateral and the value of collateral held. These arrangements are then monitored to ensure parameters are adhered to and valuations or ratings continue to be acceptable. Collateral was mainly held in the form of Letters of Credit and funds held within designated accounts.

16.4.2. Liquidity risk

Liquidity risk is the probability of loss arising from situations where the Syndicate either has insufficient cash to meet its financial obligations or is required to sell assets below their fair value to meet cash demands. LSM maintains sufficient liquidity to meet liabilities as they fall due. Cash will only be held for routine cash flow purposes, or where there is a specific regulatory requirement, as LSM accepts liquidity risk to maximise invested assets.

LSM holds capital to cover the risk that assets are required to be liquidated below book value in a stressed (1 in 200 year) scenario, as well as balancing the liquidity of the investment portfolio.

Based on reviews of the historic liquidity of assets in stressed scenarios, LSM will ensure that the weighting of investment grade bonds rated AAA-AA will exceed 20% of the total investment portfolio for each legal entity.

The Syndicate will maintain a diversified and appropriately liquid portfolio aimed at minimising the mismatch in cash flows between the assets and net-liabilities. Illiquid investments will be considered on a case-by-case basis depending on the supporting justification; these securities will be subject to regular review to ensure the impact on liquidity risk is immaterial.

The Syndicate has an LOC of £391.4m that can be converted to cash in 30 days (or Liberty Mutual Group could elect to provide cash and not utilise the LOC); this gives the ability for the Syndicate to address any material short-term liquidity requirements, and provides an opportunity / some flexibility to go longer with the remainder of the assets.

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for the year ended 31 December 2016

16. Risk Management (continued)

16.4. Financial risk (continued)

16.4.2. Liquidity risk (continued)

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities.

	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
2016	\$m	\$m	\$m	\$m	\$m	\$m
Outstanding claim liabilities	-	570.3	1,333.0	661.1	813.2	3,377.6
Creditors	591.8	-	-	-	-	591.8
Total credit risk	591.8	570.3	1,333.0	661.1	813.2	3,969.4

	No stated maturity	0-1 year	1-3 years	3-5 years	>5 years	Total
2015	\$m	\$m	\$m	\$m	\$m	\$m
Outstanding claim liabilities	-	647.0	1,268.1	599.4	927.8	3,442.3
Creditors	400.6	-	-	-	-	400.6
Total credit risk	400.6	647.0	1,268.1	599.4	927.8	3,842.9

16.4.3. Market risk

Market risk is the risk of fluctuations to the net asset value (NAV) due to the volatility or level of financial variables impacting primarily the value of fixed income securities and private equity funds and the discounted value of net-liabilities. Market risk is comprised of:

- Exchange rate risk
- Equity risk
- Credit and Spread risk
- Interest rate risk

The following policies and procedures are in place to govern the exposure to market risk

- An Investment Management Policy exists that sets out the assessment and determination of what constitutes market risk for the Syndicate.
- The Investment Management Policy details how the company measures, monitors and mitigates the potential market risks posed by the investment portfolio. Compliance with the policy is monitored with exposures and any breaches reported to the Investment Committee and the Risk Committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.
- The measurement, monitoring and reporting of market risk takes into account the profile of the net technical provisions and is reflective of the financial risk caused by the interaction of the assets and liabilities.

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16. Risk Management (continued)

16.4. Financial Risk (continued)

16.4.4. Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Syndicate's functional currency is the USD and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, GBP and Canadian dollars. The Syndicate seeks to mitigate the risk by matching foreign currency denominated liabilities with assets denominated in the same currency.

The table below summarises the exposure of the financial assets and liabilities to foreign exchange rate risk at the reporting date:

2016	GBP \$m	USD \$m	EUR \$m	CAD \$m	Total \$m
Total assets	993.4	4,174.1	631.4	225.3	6,024.2
Total liabilities	(1,144.0)	(2,947.1)	(656.0)	(140.1)	(4,887.2)
Net assets	(150.6)	1,227.0	(24.6)	85.2	1,137.0

2015 restated	GBP \$m	USD \$m	EUR \$m	CAD \$m	Total \$m
Total assets	904.9	3,906.3	831.8	194.3	5,837.3
Total liabilities	(1,245.0)	(2,748.8)	(639.6)	(88.7)	(4,722.1)
Net assets	(340.1)	1,157.5	192.2	105.6	1,115.2

The table below gives an indication of the impact of on net asset value of a percentage change in the relative strength of the USD against GBP, Canadian dollar and the Euro simultaneously.

	2016 \$m	2015 restated \$m
Dollar weakens:		
10% against other currencies	(10.0)	(9.4)
20% against other currencies	(22.5)	(21.2)
Dollar strengthens:		
10% against other currencies	8.2	7.7
20% against other currencies	15.0	14.1

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.4. Financial Risk (continued)

16.4.5. Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate has no significant concentration of interest rate risk.

Insurance liabilities are not discounted and therefore not exposed to interest rate risk.

The analysis below is performed for reasonably possible movements in interest rates, with all other variables held constant, showing the impact on profit and members' balance of the effects of changes in interest rates on fixed rate and variable rate financial assets.

This measures the impact on profit or loss for the year (for items recorded at fair value through profit or loss) that would arise from a reasonably possible change in interest rates on financial instruments at the period end.

The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that real-world movements in these variables are non-linear.

Changes in variables	Impact on result \$m	Impact on Members' balances \$m
At 31 December 2016		
+ 50 basis points	(73.6)	(73.6)
- 50 basis points	81.0	81.0
At 31 December 2015		
+ 50 basis points	(72.3)	(72.3)
- 50 basis points	77.7	77.7

Notes to the Financial Statements

for the year ended 31 December 2016

16. Risk Management (continued)

16.4. Financial Risk (continued)

16.4.6. Equity price risk

Equity risk arises from the level or volatility of market prices for equities.

The Syndicate's equity risk exposure relates to financial assets and financial liabilities whose values will fluctuate as a result of changes in market prices, principally investment securities.

The Investment Management Policy governs the management of equity risk by setting limits on equity investments which are regularly monitored.

There is no significant concentration of equity risk.

The analysis below is performed for reasonably possible movements in market indices on financial instruments, insurance and with-profit contract assets and liabilities with all other variables held constant, showing the impact on profit before tax due to changes in fair value of financial assets and liabilities (whose fair values are recorded in the income statement) and equity (that reflects adjustments to profit before tax and changes in fair value of available for sale financial assets that are equity instruments). The correlation of variables will have a significant effect in determining the ultimate impact on equity risk, but to demonstrate the impact due to changes in variables, the variables were altered on an individual basis. It should be noted that real-world movements in these variables are non-linear.

The method used for deriving sensitivity information and significant variables did not change from the previous period.

	Change in variables	2016		2015	
		Impact on result	Impact on equity	Impact on result	Impact on equity
Changes in variables - market indices	\$m	\$m	\$m	\$m	\$m
FTSE 100	+5%	1.3	1.3	1.0	1.0
FTSE 100	-5%	(1.3)	(1.3)	(1.0)	(1.0)

Notes to the Financial Statements

for the year ended 31 December 2016

17. Related parties

Liberty Corporate Capital Limited is the corporate member of Syndicate 4472. Liberty Corporate Capital's immediate parent company is Liberty International Holdings Inc.

Liberty Managing Agency Limited (LMAL) is the managing agent of Syndicate 4472. Liberty Managing Agency Limited's immediate parent company is Liberty International Holdings LLC. The Agency charged a fee of \$50.7m (2015: \$53.7m) to the Syndicate for its services, which is within the pre-determined percentage by year of account. The Agency also charged the Syndicate \$33.5m (2015: nil) of Profit Commission which represents 17.5% of Syndicate open year profits, under the terms of the managing agent's agreement. At the balance sheet date, the Syndicate owed LMAL \$42.5m (2015: \$45.1m).

Liberty Specialty Markets Limited is a service company from which employees are seconded to the Managing Agent to perform Syndicate duties for and behalf of the corporate member, for which costs are incurred and re-charged to the Syndicate. During the year, LSML charged a total of \$132m (2015: \$175.2m – previously charged by LMAL) to the Syndicate in recharged expenses, of which the Syndicate owed \$112.3m (2015: \$0.1m) at the balance sheet date. Liberty Specialty Markets Limited's immediate parent company is Liberty UK and Europe Holdings Limited.

Liberty Specialty Services Limited (previously Liberty Syndicate Services Limited) acts as a coverholder for the Syndicate and its related UK insurer Liberty Mutual Insurance Europe Limited (see below). The company also acts as a broker in certain reinsurance transactions for the Syndicate. During the year, the service company charged the Syndicate \$33.3m (2015: \$40.4m) in commissions, of which \$10.4m (2015: \$23.3m) was outstanding at the balance sheet date. Its ultimate parent company is Liberty Mutual Holdings Company Inc.

Liberty Mutual Insurance Europe Limited (LMIE) is a company registered within England and Wales that operates under the LSM umbrella. During the year, the Syndicate placed \$0.2m (2015: \$0.9m) of outwards reinsurance contracts with LMIE. The losses recovered from LMIE during the year amounted to \$3.4m (2015: \$4.3m) whereas \$19.8m (2015: \$24.8m) related to this reinsurance contract is included in total reinsurer's share of technical provisions in the balance sheet.

Liberty International Group (LIG) constitutes all other entities and affiliates to the Syndicate's ultimate parent company, Liberty Mutual Holdings Company. During the year, the Syndicate placed outwards reinsurance protection of \$298.7m (2015: \$251.6m) with LIG. The losses recovered from LIG during the year amounted to \$19.3m (2015: \$44.5m) whereas \$163.7m (2015: \$84.4m) related to this reinsurance contract is included in total reinsurer's share of technical provisions in the balance sheet.

Liberty Specialty Markets MENA Limited (LSM MENA), established 2015, also acts as a coverholder for the Syndicate and LMIE, for which it charges a fee for its services. The amount charged during the period was \$2.6m (2015: \$1.5m), of which an outstanding balance of \$2.2m (2015: -\$0.3m) remained at the balance sheet date. LSM MENA's immediate parent company is Liberty UK and Europe Holdings Limited.

18. Member's Funds

18.1. Funds at Lloyd's

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's (FAL). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet their participating member's underwriting liabilities.

The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these annual accounts by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses. Refer to note 16 for further details.

Notes to the Financial Statements

for the year ended 31 December 2016

18. Member's Funds (continued)

18.2. Funds in Syndicate (FIS)

Liberty Corporate Capital Limited holds investments in the Syndicate to be used to support the Syndicate's capital requirements of Funds at Lloyd's. This gives the Syndicate the ability to manage these funds under the same Investment Management Agreement as the other funds of the Syndicate that are held within the premium trust funds. The value of FIS as at the balance sheet date was \$1,111.2m (2015: \$1,108.1m).

The member participates on the Syndicate by reference to years of accounts' ultimate results, and assets and liabilities are assessed with reference to policies incepting in that year of account in respect of its membership of a particular year. The balance due to the member is payable when a year of account closes, usually after three years. Syndicates which are wholly aligned are able to retain closed year profits as capital to support their underwriting activities. This is known as Funds in Syndicate. The 2006 year of account balance was retained within the Syndicate at its time of closure. Subsequently, the Syndicate also retained the results of the 2007 to 2012 years of account at their time of closure. During 2016, the 2013 year of account result was also transferred to Funds in Syndicate. Additionally, net distributions to the member of \$174.4m (2015: \$97.1m) occurred during the calendar year.

19. Off-balance sheet arrangements

The Syndicate benefits from collateral pledged by ceded reinsurance counterparties, which is not held on the balance sheet. The collateral is held in segregated funds, and acts as additional security in the event of failure of those counterparties to meet their contractual obligations.

The Syndicate has not been party to any other arrangements, which is not reflected in its statement of financial position, where material risk and benefits arise for the Syndicate.

20. Post balance sheet events

On February 27 2017 the UK Ministry of Justice announced a change in the so called Ogden rate, which is used for discounting personal injury claims in the calculation of lump sum compensation awards, from 2.5% to -0.75% with effect from March 20 2017.

The change in rate has a significant impact on the reserves of the syndicate held in respect of such claims, as well as on future pricing decisions, and as such could be classed as an adjusting event for the purposes of these financial statements.

The managing agent has reviewed the potential impact of the change, taking into account the significant uncertainties that might affect the ultimate cost of the decision, and has concluded that the likely ultimate cost is within the margins held by the syndicate in order to deal with such uncertainties. The most significant impact is on the Motor Reinsurance class of business.

As a consequence, no adjustment to the syndicate financial statements has been made in respect of this event.

21. Ultimate parent company

The ultimate parent company of both Liberty Corporate Capital Limited and Liberty Managing Agency Limited is Liberty Mutual Holding Company Inc. of Boston, 175 Berkeley Street, Boston, Massachusetts 02117, U.S.A. a company incorporated in the United States of America. The smallest higher group of companies for which group accounts are drawn up, and of which these companies are members, is Liberty International Holdings LLC.

Copies of the group accounts of Liberty International Holdings Inc., Liberty International Holdings LLC and Liberty Mutual Holding Company Inc. are available from the company's office, 175 Berkeley Street, Boston, Massachusetts 02117, U.S.A.

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

AmTrust

Syndicate 1861

Annual Report and Accounts

For the year ended 31 December 2016



AmTrust Syndicates Limited
An AmTrust Financial Company

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Directors and Advisers

Managing Agent

AmTrust Syndicates Limited

Registered office

47 Mark Lane
London EC3R 7QQ

Managing Agent's registration No. 4434499

FCA firm registration No. 226696

Lloyd's registration No. 2073D

Syndicate: 1861

Directors

B Jansli	Non-Executive Chairman	Appointed 08/11/2016
N C T Pawson	Non-Executive Director	
J P Fox	Non-Executive Director	Appointed 22/11/2016
B Jackson	Non-Executive Director	Appointed 08/11/2016
J E Cadle	Non-Executive Deputy Chairman	Appointed 08/12/2016
M G Caviat	Non-Executive Director	Appointed 08/12/2016
P Dewey		Appointed 08/11/2016
S J Helson		Appointed 22/01/2016
J M Hamilton		
B Gilman		
G Sweatman		Appointed 22/11/2016; Resigned 20/02/2017
M A Sibthorpe		Appointed 08/12/2016
D J L Barrett		Appointed 29/11/2016
J M P Taylor	Non-Executive Chairman	Resigned 07/11/2016
J G M Verhagen	Non-Executive Director	Resigned 12/07/2016
A P Hulse	Non-Executive Director	Resigned 07/11/2016
A C Barker		Resigned 31/10/2016
G M Van Loon		Resigned 07/11/2016
L J Cross		Resigned 07/11/2016
A S W Hall		Resigned 07/11/2016
S Lacy		Appointed 11/08/2016; Resigned 07/11/2016

Company secretary

A S W Hall	Resigned 22/01/2016
G Luckett	Appointed 22/01/2016; Resigned 07/11/2016
D J L Barrett	Appointed 29/11/2016

Active Underwriter

C Jarvis

Bankers

Lloyds Bank plc
City Office, Bailey Drive
Gillingham Business Park
Kent ME8 0LS

Investment Managers

Amundi Asset Management
41 Lothbury
London EC2R 7HF

Statutory Auditor

Deloitte LLP
2 New Street Square
London EC4A 3BZ

Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report, which incorporates the strategic review, for the year ended 31 December 2016. The Syndicate's Managing Agent is a company registered in England and Wales.

This Annual Report is prepared using the annual basis of accounting as required by Statutory Instrument No 1950 of 2008, The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (Lloyd's Regulations 2008).

These Financial Statements and related notes have been prepared in accordance with the requirements of Financial Reporting Standard (FRS) 100 ('Application of Financial Reporting Requirements'), FRS 102 ('The Financial Reporting Standard Applicable in the UK and Republic of Ireland') and FRS 103 ('Insurance Contracts') as promulgated by the Financial Reporting Council (FRC).

Principal activity

The Syndicate's principal activity continued to be the transaction of general insurance and reinsurance business. The Syndicate capacity for the 2016 year of account was £205m. The capacity has increased to £245m for the 2017 year of account.

AmTrust

The Managing Agent is an indirect wholly owned subsidiary of AmTrust Financial Services, Inc. (AFSI) the ultimate parent company of the AmTrust group of companies (the Group / AmTrust). AmTrust a multinational property and casualty insurer writing a diversified portfolio of specialty property and casualty, workers compensation and warranty insurance and related products and services. With extensive underwriting experience and a prestigious "A" (Excellent) Financial Size XIV rating from A. M. Best, AmTrust has built a reputation as an innovative, technology-driven insurance company with a commitment to excellence.

AmTrust at Lloyd's

AmTrust's Lloyd's platform, trading as AmTrust at Lloyd's, combining AmTrust's syndicate underwriting and managing agency operations, is central to the Group's international operations, allowing AmTrust to access profitable specialty business on a worldwide basis.

Syndicate 1861 is managed by AmTrust Syndicates Limited (ASL), which was renamed following the acquisition of ANV Holdings BV (ANV), ASL's former ultimate parent company, by AmTrust Lloyd's Holdings (UK) Ltd, an indirect, wholly owned subsidiary of AFSI, in November 2016, having previously traded as ANV Syndicates Limited.

During 2016 ASL managed Lloyd's Syndicates 1861, 5820 and 779, wrote a globally diversified risk portfolio with twelve diverse lines of business, selected based on the platform's strategic position, the market opportunity within Lloyd's and the portfolio diversification and capital benefits these classes offered.

The following lines of business were identified as core to ASL:

- Accident & Health and Special Risks
- Aviation
- Consumer Products
- Cyber
- Energy
- Life
- Marine
- Non-Marine Liability
- Property
- Political Risks and Political Violence
- Professional Lines
- Specialty Reinsurance

2016 Overview

Syndicate 1861 has delivered 16.7% growth in top-line premium in 2016, 4.5% excluding the impact of foreign exchange rate changes between its US dollar functional currency and its Sterling presentational currency, which is a strong performance in the context of the current market conditions across the traditional specialty lines and the continued disciplined underwriting approach adopted across all classes.

The Syndicate generated a loss for the financial year of £4.0m (2015: profit of £11.4m), with the combined ratio for the year at 103.8% (2015: 94.6%). While the Syndicate has avoided the market catastrophe losses in the year, an increase in large risk loss activity has resulted in an increase in the net claims ratio to 52.4% (2015: 43.7%). As the Syndicate continues to build out capability and achieve critical scale on younger lines, the rebalanced portfolio mix has shifted the acquisition costs ratio to 43.4% (2015: 39.4%). The expense ratio for the business has reduced to 8.0% (2015: 11.5%) as the Syndicate achieves greater scale, which has been achieved against a backdrop of increasing regulatory costs and continued investment in the Lloyd's platform.

1861 Underwriting Review

Portfolio and cycle management have been a key focus for the 1861 underwriting team in 2016 as insurers' margins continued to be narrowed by reduced rating adequacy coupled with clients seeking broader coverage. Additionally, broker facilities and various other risk packaging initiatives continue to hamper the more traditional underwriting methods. The resultant reduction in subscription business has required that the Syndicate differentiates on product, service, or the capability to lead business, in order to maintain market share in many lines.

The Syndicate has had success in delivering this strategy, achieving premium growth year on year while continuing to exercise underwriting discipline across all lines. The broader product offering as a result of the portfolio optimisation and re-underwriting work undertaken over the last 5 years has insulated the Syndicate against declining income levels in some of the more traditional lines, such as Property and Energy. This has been offset by growth on less mature lines such as US Non-Marine General Liability and Contingency, and the new US Professional Indemnity and Aviation Hull Deductible products launched in 2016.

In 2016 the Syndicate was unaffected by catastrophe claims, however there has been an increase in large claims across multiple lines in the year most notably on the Energy, Marine and Reinsurance classes, from the Jubilee (Tullow Ghana), Space X, Vermillion (Samir oil refinery) and Pemex claims. Additionally, there has been reserve strengthening on Warranty & Indemnity losses reported in previous years in the Professional Lines account on the 2014 & Prior years of account. The Syndicate's reinsurance programme has materially mitigated the impact of these, and other large losses, on the 2016 result.

Significant Events

ANV Syndicates Limited had been rated red for Solvency II Pillar 2 compliance by Lloyd's in 2015, in respect of Governance and Risk Management. In April 2016, Lloyd's confirmed that the issues preventing a Solvency II green rating had been addressed.

At the beginning of 2016 ASL was a subsidiary of ANV Holdings B.V. (ANV), the parent of the ANV Group which was a privately owned and held Dutch registered holding company and its lead investor was Ontario Teachers' Pension Plan (OTPP). ANV held an 80% majority shareholding in ASL's immediate parent, ANV Syndicate Management Limited, with the remaining 20% held by Jubilee Group Holdings Ltd (JGHL), a subsidiary of the Ryan Specialty Group. ANV purchased JGHL's minority shareholding in July 2016, resulting in ASL being 100% owned by ANV. Johanna Verhagen, a non-executive director and a representative of Ryan Specialty Group, resigned in July 2016 following the transaction.

In November 2016, AmTrust completed the acquisition of ANV and its affiliates from OTPP, at which point ASL was renamed AmTrust Syndicates Limited, having previously traded as ANV Syndicates Limited. Following the acquisition, an exercise was completed to align the Board structure with AmTrust's existing Lloyd's Managing Agency, AmTrust at Lloyd's Limited. The changes to the Board composition are detailed within the Directors and Advisers Report.

The 2014 year of account of the Syndicate was successfully reinsured to close into the 2015 underwriting year of account.

Key Performance Indicators

The Syndicate's key financial performance indicators below relate to the results for the Syndicate on an annual accounting basis during the year and were as follows:

	2016 £m	2015 £m
Written Premiums		
Gross premiums written	259.1	222.0
Net premiums written ¹	200.7	167.7
Earned Premiums		
Earned premiums, net of reinsurance ²	195.3	156.7
(Loss) / Profit for the financial year (before OCI) ³	(4.0)	11.4
Total comprehensive income	(6.1)	11.3
Cash, investments and overseas deposits	188.6	138.2
Members' Balances	(17.5)	(6.9)
Key Ratios	%	%
Claims ratio (net)	52.4	43.7
Acquisition ratio	43.4	39.4
Expense ratio	8.0	11.5
Combined ratio ⁴	103.8	94.6

Notes:

¹ Net premiums written is stated gross of brokerage and commission, and net of associated reinsurance costs.

² Earned premiums, net of reinsurance are stated gross of brokerage and commission, and net of associated reinsurance costs.

³ OCI (other comprehensive income) represents foreign exchange gains and losses on translation from the Syndicate's US dollar functional currency to its Sterling presentational currency.

⁴ The combined ratio is the ratio of net claims incurred, acquisition costs and net operating expenses to net premiums earned.

Gross Premiums Written

Gross written premiums have increased by £37.1m (16.7%) from the previous year to £259.1m for the 2016 calendar year. This top-line growth is reflective of both an increase in premium across a number of classes following the £20.0m increase in stamp capacity and the strengthening of the US Dollar against Sterling. In converted US Dollar terms, the Syndicate's functional currency, gross premiums written increased by 4.5%. The largest growth was achieved on the Specialty RI and Liability classes whilst the most significant reductions were seen on Energy, Marine & Cargo and Accident & Health following the repositioning of the portfolio.

Net Premiums Written

Net written premiums have increased by £33.0m (19.7%) from 2015 following the growth in the top-line and a reduction in the ceded ratio from 24.4% to 22.6%. In converted US Dollar terms net premiums written increased by 6.7% from the 2015 calendar year. The 2016 reinsurance programme was broadly in line with 2015 with savings achieved on the Excess of Loss renewals offset by reinstatement premiums following the large loss activity during the period.

Earned Premiums, Net of Reinsurance

Net earned premiums have increased by £38.6m from the previous year. This 24.6% increase is reflective of the growth in written premiums during the year.

Loss for the Financial Year

An overall loss of £4.0m was generated for the financial year driven by the large loss experience on a number of classes on the 2015 & Prior years of account. To date the 2016 year of account has performed favourably to plan.

Total Comprehensive Income

A loss of £6.1m was generated on translation of the Syndicate's accounts from its functional currency (USD) to its presentational currency (GBP).

Cash, investments and overseas deposits

Cash, investments and overseas deposits have increased by £50.4m during the year driven by the increase in written premiums, an increase of £7.6m in collateral deposited by certain of the Syndicate's reinsurers and the beneficial effects of the strengthening of USD to GBP from 1.47 at 31 December 2015 to 1.23 at the current year end on the predominantly USD based assets. On an FX adjusted basis the movement in cash, investments and overseas deposits, excluding collateral, is £17.9m.

Member's Balances

Member's balances, representing net liabilities of £17.5m have increased by £10.6m from 31 December 2015 following the 2016 calendar year loss of £6.1m and the distribution of the closing profit on the 2013 year of account of £4.5m.

Claims Ratio

The claims ratio increased by 8.7% to 52.4% for the 2016 calendar year driven by large loss activity. Favourable experience on the 2016 year of account was offset by the performance of the 2015 and prior years of account where Professional Lines, Marine & Cargo, Energy and Specialty RI classes were impacted by a number of large losses. In addition there were higher than expected levels of attrition on the Aviation classes. There was partially offsetting favourable experience on Property, Political Risks, Cyber and A&H classes across the years.

Acquisition Ratio

The acquisition ratio, calculated as the ratio of earned brokerage, commissions and acquisition expenses to net earned premiums, has increased by 4.0% to 43.4% for the 2016 calendar year. The ratios for both the 2016 and 2015 calendar years are elevated by the significant levels of quota share protection purchased – the ratio of acquisition costs to gross earned premiums by comparison is 33.2% for the 2016 calendar year and 29.9% for 2015. The 3.3% increase in the ratio is reflective of the change in business mix following the rebalancing of the portfolio over the past two years.

Expense Ratio

The expense ratio, calculated as the ratio of net operating expenses to net earned premiums, has reduced by 3.5% to 8.0% for the 2016 calendar year. The primary driver for this improvement is the increased scale of the Syndicate – net earned premiums increased by £38.6m from the prior period.

Combined Ratio

The combined ratio in 2016 has increased by 9.2% to 103.8% for the 2016 calendar year driven by the claims ratio as outlined above. Savings of 3.5% in the expense ratio were offset by an increase of 4.0% in the acquisition ratio.

Investments and investment return

	2016 £m	2015 £m
Average amount of syndicate funds available for investment during the year:		
Sterling	13.4	10.6
Euro	2.2	6.4
US Dollar	155.9	128.9
Canadian Dollar	7.8	4.6
Combined in sterling	179.3	150.5
Gross aggregate investment return for the calendar year in Pounds Sterling	2.1	0.6
Gross calendar year investment return:		
Sterling	0.76%	(0.66)%
Euro	0.02%	0.00%
US Dollar	1.44%	0.49%
Canadian Dollar	1.07%	0.68%
Combined in sterling	1.17%	0.39%

The investment manager during the year was Amundi Asset Management.

The above investment returns are calculated using average funds based on the monthly balances and investments revalued to month-end market prices including accrued interest.

The Syndicate's investment portfolio is composed of debt instruments which are held at fair value through the Income Statement. The fixed income investment return of the Syndicate during the period attributable to the invested assets was 1.73%. The return is reflective of the Syndicate's investment policy which is focused on capital preservation through investing in a short duration and low credit risk portfolio. The invested portfolio duration at 31 December 2016 was 1.35 years (2015: 1.53 years) and the duration of the total funds was 1.06 years (2015: 1.08 years).

It is the Managing Agency's policy to actively monitor the Syndicate's currency exposures, and where possible, it seeks to match the Syndicate's assets and liabilities to the extent that regulatory restrictions allow.

Principal risks and uncertainties

On completion of AmTrust's purchase of ANV, the AmTrust at Lloyd's Governance and Risk Frameworks were adopted.

The Syndicate's activities expose the Managing Agent to a number of key risks which have the potential to affect the Managing Agent's ability to achieve its and the Syndicate's objectives. The Managing Agent's Risk Committee oversees the operation of the Syndicate's risk management framework and reviews and monitors the management of the risks to which the Syndicate is exposed. Risk management policies are established to identify and analyse the risks faced by the Syndicate, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The principal risks and uncertainties facing the Syndicate are as follows:

Insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Board then monitors performance against the business plan.

The Managing Agent uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business in major territories. Reserve adequacy is monitored through quarterly review by the Reserving Committee. In addition the Agency receives independent external analysis of the reserve requirements annually.

Binding authority arrangements are an important part of the business and present operational risk to the Syndicate. The Managing Agent has established a dedicated Product Governance Committee to oversee pre-bind reviews and on-going annual reviews including periodic on-site third party audits.

Investment risk

The key aspect of investment risk is the risk of the Syndicate's investments not meeting their anticipated returns. All investments are managed under the direction of the Investment Committee. The broad investment strategy adopted is focused on capital preservation and, in that context, on maximising return while maintaining a low risk portfolio. Investment management has been outsourced to professional fund managers whose performance is monitored by the Investment Committee.

Credit risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation. The Syndicate is exposed to credit risk in respect of the following:

- Debt securities;
- Overseas deposits;
- Cash at bank and deposits with credit institutions;
- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of settled claims;
- Amounts due from group undertakings; and
- Amounts due from insurance intermediaries.

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. The Syndicate also limits the amount of cash and cash equivalents that can be deposited with a single counterparty.

The Syndicate's exposure to reinsurance counterparties is managed by the Executive Committee which establishes standards applicable to all reinsurers and the reinsurance department which monitors the financial status of reinsurance debtors. The Board's policy is that the Syndicate will only reinsure with businesses rated A- or higher unless collateralised.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices which could be caused by movements in interest rates or exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Interest rate risk arises primarily from the Syndicate's financial investments, cash and overseas deposits. The risk of change in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The Investment Committee monitors the duration of these assets on a regular basis.

Exchange rate risk arises when the Syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Managing Agent's Chief Financial Officer (CFO), together with the Risk Committee, reviews currency matching quarterly.

Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. The CFO, together with the Investment Committee, monitors cash flows and manages liquid assets to ensure that cash is available to meet obligations and operational liquidity needs.

Operational risk

This is the risk that errors caused by people, processes, systems or external events lead to losses to the Syndicate. The Managing Agent seeks to manage this risk through the use of detailed procedures manuals and regular reviews of systems and controls, and a structured programme of testing of processes and systems by internal audit. The internal audit process is designed to provide management and the Board, through its Audit Committee, with reasonable assurance that the controls and procedures are able to contain the risks within acceptable limits.

Regulatory risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Managing Agent is required to comply with the requirements of the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the Council of Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. The Managing Agent has a compliance officer who monitors regulatory developments and assesses the impact on the Managing Agent's policy.

Conduct Risk is the risk that customers experience poor outcomes in their engagement with ASL and is part of Regulatory Risk. This risk applies to all of the Syndicate's business but is particularly focused where the Syndicate insures retail risks especially using delegated underwriting. This has been an area of particular emphasis by the FCA and by Lloyd's, with the introduction of new minimum standards in this area. ASL has a Product Governance Committee which oversees its response to these requirements and operates a conduct framework designed to ensure that appropriate outcomes are delivered to customers.

Supplementing and informing the assessment of risk in the categories identified above, management receives regular risk reports highlighting the material areas of risk, uncertainty and comparison with risk appetite as well as risk events, near misses and emerging risks.

Corporate Governance

Prior to the acquisition of ASL by AmTrust Lloyd's Holdings (UK) Ltd the ASL Board was chaired by Max Taylor and supported by three further Non-Executive Directors. Until the acquisition ASL had seven Executive Directors in total. Following the acquisition of ASL the Board is chaired by Bjorn Jansli and supported by five further Non-Executive Directors. ASL has eight Executive Directors in total.

A defined operational and management structure as well as terms of reference for all Board committees has been in place throughout the period.

The ASL Board meets at least four times a year and more frequently when business needs require. The Board has a schedule of matters reserved for its decision and has appointed an Executive Committee to manage the operations of the business. The Board and the Executive Committee are supported by an Audit Committee and a

Risk Committee. The Committee Framework includes a number of other Committees, including a dedicated Product Governance Committee to manage conduct risk issues.

Future Developments

For the 2017 year of account the Syndicate capacity has increased by £40.0m to £245.0m.

In 2017, the Syndicate will continue to look to deliver controlled growth within existing classes of business written in the Syndicate, with no new classes or significant changes to the overall current geographical composition. The emphasis will be on growing younger accounts, and leveraging our market-leader position where opportunities exist for disciplined, responsive and solution-driven underwriting. In recognition of the current environment, Syndicate 1861's plan for 2017 includes a contraction in classes where the market continues to see pressure on rates by surplus market capacity.

The Syndicate's cycle management skills will be tested again; focus will remain on profitable underwriting.

Management do not expect that the 'Brexit' vote represents a threat to delivering on the Syndicate Strategy. In the short-term the UK continues to be a full member of the EU with access to the single market and operating under the current passporting regime. Lloyd's remains committed to its European markets and is delivering on plans to continue trading with the single market.

More widely at AmTrust at Lloyd's, the novation of the management of Syndicate 1206 from AmTrust at Lloyd's Limited to ASL in March 2017 was the first step in delivering on AmTrust at Lloyd's strategy to have one agency to manage the activities of a single combined property and casualty syndicate. For the 2017 year of account ASL has £636m of property and casualty capacity under management on its aligned participations on Syndicates 1861, 1206 and 5820. Management is looking to combine its underwriting interests across Syndicates 1861, 5820 and 1206 into one syndicate for the 2018 year of account by way of transferring the business and associated expenses.

It is management's expectations that this will not impact the results of the 2015, 2016 and 2017 years of account and that the 2015 and 2016 years of account will close by way of reinsurance to close into the successor years of account of this syndicate at the normal 36 month period on a similar basis to the closure of the 2014 year of account at 31 December 2016.

The overarching AmTrust at Lloyd's vision is for all managed syndicates to be classed as top quartile by Lloyd's, representative of both strong performance against plan and relative to peers and the overall capabilities of the managing agency. The underlying ethos is based on achieving a satisfactory return on capital employed across all syndicates whilst taking a long term view across the market cycle.

Finally, this is an opportunity for syndicate management to thank all employees for their continued commitment and hard work during a demanding, but stimulating, year in the Agency; as we look forward to capitalising on the opportunities that are available to a larger, combined AmTrust at Lloyd's platform in 2017 and beyond.

Staff matters

ASL considers its staff to be a key resource and the retention of staff fundamental to the success of the business. The strategy adopted by ASL is designed to ensure that the terms and conditions offered to employees, as part of their overall remuneration package, remain competitive with the rest of the London Market insurance industry.

The Managing Agent seeks to provide a good working environment for its staff that is safe and complies with appropriate legislation. During the year, there has been no significant injury to staff in the workplace or any significant actions taken by any regulatory bodies with regard to staff matters.

Going Concern

After making enquiries, the Directors have a reasonable expectation that continued capital support will be in place such that the Syndicate is able to continue to write new business in future underwriting years of account subject to the successful combination of the underwriting of ASL's aligned syndicates for the 2018 year of account as outlined above in Future Developments. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

Directors and directors' interests

The names of persons who were members of the Board of directors at any time during the period are given on page 2. Directors' interests are shown in note 25 as part of the related parties note to the accounts.

Disclosure of information to the auditors

So far as each person who was a director of the Managing Agent at the date of approving this report is aware, there is no relevant audit information, being information required by the auditor in connection with its report, of which the auditor is unaware. Having made enquiries of fellow directors of the Agency and the Syndicate's auditor, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditors

Following the acquisition of ANV Holdings B.V. and its affiliates, including the Syndicate's Managing Agent, by AmTrust Lloyd's Holdings (UK) Ltd. it is anticipated that the auditors of the Syndicate and Managing Agent will be aligned with the wider AmTrust group and that KPMG LLP will duly be appointed as auditors to the Syndicate and Managing Agent.

Syndicate's Annual General Meeting

AmTrust Syndicates Limited does not propose to hold an annual general meeting to appoint KPMG LLP as the Syndicate auditors.

P Dewey

Chief Executive Officer
AmTrust Syndicates Limited
21 March 2017

Company number: 4434499

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate Annual Accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Syndicate annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the Managing Agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 notes to the Syndicate annual accounts; and
- prepare the Syndicate annual accounts on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The Managing Agent is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to ensure that the Syndicate Annual Accounts comply with the 2008 Regulations. It is also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Report of the Auditor

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1861

We have audited the Syndicate annual financial statements for the year ended 31 December 2016 which comprise of the following primary financial statements; the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate'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 Syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities, the managing agent is responsible for the preparation of syndicate annual financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual 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 Syndicate annual financial statements

An audit involves obtaining evidence about the amounts and disclosures in the annual financial statements sufficient to give reasonable assurance that the annual 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 Syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the annual financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate annual financial statements

In our opinion the annual financial statements:

- give a true and fair view of the Syndicate's affairs as at 31 December 2016 and of its loss 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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matter prescribed by The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Report of the Directors of the Managing Agent for the financial year in which the annual financial statements are prepared is consistent with the annual 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 Insurance Accounts Directive (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Mark McQueen (Senior statutory auditor)

for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor

London, United Kingdom

21 March 2017

Income Statement: Technical Account – General Business

Year Ended 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Earned premiums, net of reinsurance					
Gross premiums written	5	259,118		221,964	
Outward reinsurance premiums		(58,453)		(54,216)	
Net premiums written			200,665		167,748
Change in the provision for unearned premiums					
Gross amount	6	(3,794)		(15,342)	
Reinsurers' share	6	(1,557)		4,329	
Change in the net provision for unearned premiums			(5,351)		(11,013)
Earned premiums, net of reinsurance			195,314		156,735
Allocated investment return transferred from the non-technical account			2,068		582
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(94,718)		(119,537)	
Reinsurers' share		26,910		24,014	
Net claims paid			(67,808)		(95,523)
Change in the provision for claims					
Gross amount	6	(79,363)		28,133	
Reinsurers' share	6	44,751		(1,159)	
Change in the net provision for claims			(34,612)		26,974
Claims incurred, net of reinsurance			(102,420)		(68,549)
Net operating expenses	7		(100,503)		(79,875)
Balance on the technical account for general business			(5,541)		8,893

All of the Syndicate's activities are classed as continuing. The accompanying notes form an integral part of the financial statements.

Income Statement: Non-Technical Account

Year Ended 31 December 2016

	Note	2016 £'000	2015 £'000
Balance on the technical account – general business		(5,541)	8,893
Investment income	11	2,748	2,409
Investment expenses and charges	11	(380)	(561)
Unrealised gains on investments	11	250	29
Unrealised losses on investments	11	(550)	(919)
Allocated investment return transferred to technical account		(2,068)	(582)
Profit on foreign exchange		1,543	2,160
(Loss) / profit for the financial year		(3,998)	11,429

The accompanying notes form an integral part of the financial statements.

Statement of Comprehensive Income

Year Ended 31 December 2016

	2016 £'000	2015 £'000
(Loss) / profit for the financial year	(3,998)	11,429
Other Comprehensive Income:		
Exchange differences on translation to presentational currency	(2,063)	(106)
Total comprehensive (loss) / income for the financial year	(6,061)	11,323

Statement of Financial Position – Assets

at 31 December 2016

Assets	Note	2016	2016	2015	2015
		£'000	£'000	£'000	£'000
Investments					
Other financial investments	12		157,357		119,575
Reinsurers' share of technical provisions					
Provision for unearned premiums	6	37,209		31,802	
Claims outstanding	6	<u>104,964</u>		<u>49,329</u>	
			142,173		81,131
Debtors					
Debtors arising out of direct insurance operations	13	115,342		94,793	
Debtors arising out of reinsurance operations	14	9,699		6,019	
Other debtors	12,15	<u>1,638</u>		<u>2,264</u>	
			126,679		103,076
Other assets					
Cash at bank and in hand	12	13,260		7,076	
Other	12,16	<u>17,988</u>		<u>11,595</u>	
			31,248		18,671
Prepayments and accrued income					
Deferred acquisition costs	17	45,209		36,384	
Other prepayments and accrued income		<u>6,243</u>		<u>1,134</u>	
			51,452		37,518
Total assets			<u>508,909</u>		<u>359,971</u>

The accompanying notes form an integral part of the financial statements.

Statement of Financial Position – Liabilities

at 31 December 2016

Liabilities	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Capital and reserves					
Members' balances			(17,470)		(6,855)
Technical provisions					
Provision for unearned premiums	6	158,897		131,858	
Claims outstanding	6	<u>324,160</u>		<u>205,441</u>	
			483,057		337,299
Deposits received from reinsurers	12,18		10,901		3,282
Creditors					
Creditors arising out of direct insurance operations	19	4,761		645	
Creditors arising out of reinsurance operations	20	26,783		23,910	
Other creditors	12,21	<u>877</u>		<u>1,690</u>	
			32,421		26,245
Total liabilities			<u>508,909</u>		<u>359,971</u>

The accompanying notes form an integral part of the financial statements.

The annual accounts on pages 14 to 42 were approved by the Board of ASL on 21 March 2017 and were signed on its behalf by:

J M Hamilton
Director

21 March 2017

Statement of Changes in Equity

Year Ended 31 December 2016

	2016 £'000	2015 £'000
Members' balances brought forward at 1 January	(6,855)	10,616
Comprehensive income for the financial year	(6,061)	11,323
(Payments to) /amounts received from members' personal reserve fund	(4,554)	6,489
Transfer of Funds in Syndicate to Members	-	(35,283)
Members' balances carried forward at 31 December	(17,470)	(6,855)

Members participate on syndicates by reference to years of account and the ultimate result therefrom. Assets and liabilities are determined by reference to policies incepting in that year of account in respect of their membership of a particular year.

Statement of Cash Flows

Year Ended 31 December 2016

	2016 £'000	2015 £'000
(Loss) / profit for the year	(3,998)	11,429
Adjustment for:		
Increase in gross technical provisions	145,758	812
Increase in reinsurers' share of gross technical provisions	(61,042)	(6,376)
Increase / (decrease) in deposits received from reinsurers	7,619	(4,865)
Operating cash flow before movement in working capital	88,337	1,000
(Increase)/decrease in debtors	(23,603)	29,439
Increase/(decrease) in creditors	6,176	(25,195)
Increase in other assets/liabilities	(13,934)	(4,082)
Investment return	(2,068)	(582)
Other Comprehensive Income	(2,063)	(106)
Net cash inflow from operating activities	52,845	474
Cash flows from investing activities		
Net purchases and sales of equity and debt instruments	(38,082)	16,825
Investment income received	2,368	1,176
Movements in overseas deposits	(6,393)	(594)
Net cash (outflow) / inflow from investing activities	(42,107)	17,407
Net cash flow from financing activities:		
Transfer (to) / from members in respect of underwriting participations	(4,554)	6,287
Transfer of Funds in Syndicate to member	-	(35,283)
Other	-	202
Net cash outflow from financing activities	(4,554)	(28,794)
Net increase/(decrease) in cash and cash equivalents	6,184	(10,913)
Cash and cash equivalents at 1 January	7,076	17,989
Cash and cash equivalents at 31 December	13,260	7,076

Notes to the Financial Statements

1. Basis of preparation

The Syndicate comprises a group of members of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the Syndicate's managing agent is 47 Mark Lane, London EC3R 7QQ.

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and Financial Reporting Standard 103 Insurance Contracts (FRS 103).

The financial statements have been prepared on the historical cost basis, except for financial assets measured at fair value through profit or loss. The Syndicate has early adopted the March 2016 amendment to paragraph 34.22 of FRS 102 in relation to fair value hierarchy. The fair value hierarchy is detailed in note 3.

The Syndicate's functional currency is US Dollars (USD). Gains and losses on the translation from functional currency to the GBP presentational currency have been recorded through the Statement of Other Comprehensive Income.

The financial statements are presented in Pounds Sterling (GBP) for consistency with the Syndicate's other regulatory reporting requirements. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

After making enquiries, the Directors have a reasonable expectation that continued capital support will be in place such that the Syndicate is able to continue to write new business in future underwriting years of account subject to the successful combination of the underwriting of ASL's aligned syndicates for the 2018 year of account as outlined in the Future Developments section within the Report of the Directors of the Managing Agent. Accordingly, the annual accounts have been prepared on the going concern basis.

2. Use of judgements and estimates

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the Syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses.

Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised in the period in which they are identified.

The Syndicate's principal estimates are for claims provisions and related recoveries. Management regularly reviews and revises these estimates as appropriate based on current information. Any adjustments made to these estimates are reflected in the period the estimates are revised.

The measurement of the provision for claims outstanding involves judgements and assumptions about the future that have the most significant effect on the amounts recognised in the financial statements.

The provision for claims outstanding comprises the estimated cost of settling all claims incurred but unpaid at the statement of financial position date, whether reported or not. This is a judgemental and complex area due to the subjectivity inherent in estimating the impact of claims events that have occurred but for which the eventual outcome remains uncertain. In particular, judgement is applied when estimating the value of amounts that should be provided for claims that have been incurred at the reporting date but have not yet been reported (IBNR) to the Syndicate.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate Managing Agent's in-house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time to estimate the likely ultimate claims to be experienced and for more recent underwriting years, having regard to variations in 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 higher degree of uncertainty arises from projections, estimates may be based in part on output from rating and other models of business accepted and assessments of underwriting conditions.

In arriving at the level of claims provisions a margin may be applied over and above the actuarial best estimate in line with the Syndicate's Reserving Policy to address the risk of un-modelled claims development.

Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in note 4.

3. Significant accounting policies

The following principal accounting policies have been applied consistently in accounting for items which are considered material in relation to the Syndicate's financial statements.

Gross premiums written

Premiums written comprise premiums on contracts of insurance incepted during the financial year as well as adjustments made in the year to premiums incepted in prior accounting periods. Premiums are shown gross of brokerage payable and are exclusive of taxes and duties thereon. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet received.

Additional or return premiums are treated as a re-measurement of the initial premium.

Outwards reinsurance premiums

Written outwards reinsurance premiums comprise the total premiums payable for contracts entered into during the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience. Where written premiums are subject to a re-measurement retrospectively they are recognised as soon as there is an obligation to the reinsurer.

Outwards reinsurance premiums are accounted for and earned in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Technical provisions

Technical provisions comprise claims outstanding whether reported or not, provisions for unearned premiums and provisions for unexpired risk.

Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties.

The amount of any salvage and subrogation recoveries is separately identified and where material, reported within other debtors.

The provision for claims outstanding is assessed on an individual case by case basis and is based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported (IBNR) as well as claims incurred but not enough reported (IBNER) at the statement of financial position date based on statistical methods.

These techniques generally involve projecting from past experience of 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.

For the most recent years, where a high degree of uncertainty 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 amounts of claims outstanding and projections for IBNR, net of estimated irrecoverable amounts, having regard to the 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. A number of statistical methods are used to assist in making these estimates.

Accordingly the most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development, that the outstanding claims estimates are reasonable and that the rating and other models used for current business are based on fair reflections of the likely level of ultimate claims to be incurred. The level of uncertainty with regard to the estimations within these provisions generally decreases with the length of time elapsed since the underlying contracts were exposed to new risks.

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 Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the 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.

Provisions for unearned premiums

Written premiums are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the statement of financial position date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses likely to arise after the end of the financial period in respect of contracts concluded before that date are expected, in the normal course of events, to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred.

The provision for unexpired risks is calculated separately by reference to classes of business which are regarded as managed together after taking into account relevant investment return.

Net operating expenses (including acquisition costs)

Net operating expenses include acquisition costs and amounts charged to members through the Syndicate.

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs such as brokerage and commission, and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies. Acquisition costs are deferred in line with the earning of the gross premiums to which they relate. The deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the statement of financial position date.

Certain contracts between the Syndicate and its producing agents and brokers include the requirement to pay override commissions based on the volume of business produced on the Syndicate's behalf. Amounts in relation to this and other commissions are accrued and earned in line with the premium to which they relate and classified as acquisition costs.

Consortium fees

The Syndicate is a member of a number of underwriting consortia. Under the terms of these consortia participants are required to pay fees to the consortium leader in return for the business written on their behalf. Fees are accrued by the Syndicate in line with earning of the business written on each consortium and are calculated in accordance with the individual contractual arrangements. In addition the consortium arrangements include provisions for the payment of profit commissions based on the performance of the business written. The Syndicate accrues commissions in respect of these arrangements in accordance with the contractual terms based on the forecast performance of each consortium. Both the accrued consortium fees and accrued profit commissions are included within administrative expenses.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to the insurance operations of the Syndicate are included in the non-technical account.

Any gains or losses arising on the retranslation from functional currency to presentational currency are recorded through in other comprehensive income (OCI).

Financial Assets and Liabilities

The Syndicate has chosen to apply the provisions of Section 11 (Basic Financial Instruments) and Section 12 (Other Financial Instruments Issues) of FRS 102 for the treatment and disclosure of financial assets and liabilities.

The Syndicate's investments comprise debt investments and cash and cash equivalents. The Syndicate does not invest in derivative financial instruments.

Recognition:

Financial assets and liabilities are recognised when the Syndicate becomes a party to the contractual provisions of the instrument. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of an undertaking after deducting all of its liabilities. The Syndicate does not hold any equity instruments.

Initial Measurement:

All financial assets and liabilities are initially measured at transaction price (including transaction costs), except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value (which is normally the transaction price excluding transaction costs), unless the arrangement constitutes a financing transaction. If an arrangement constitutes a finance transaction, the financial asset or financial liability is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. The Syndicate was not party to any financing transactions during the period.

Subsequent measurement:

All debt instruments are measured at fair value through the income statement.

Realised and unrealised gains and losses arising from changes in the fair value of investments are initially presented in the non-technical account in the period in which they arise. Dividend and interest income is recognised when earned. Investment management and other related expenses are recognised when incurred. The overall investment return is subsequently transferred to the Technical Account to reflect the investment return on funds supporting the underwriting business.

Derecognition of financial assets and liabilities:

Financial assets are derecognised when and only when a) the contractual rights to the cash flows from the financial asset expire or are settled, b) the Syndicate transfers to another party substantially all of the risks and rewards of ownership of the financial asset, or c) the Syndicate, despite having retained some significant risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged, cancelled or expires.

Fair value measurement:

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market for the asset is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the company estimates the fair value by using a valuation technique.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, yield curves, credit spreads, liquidity statistics and other factors.

The use of different valuation techniques could lead to different estimates of fair value.

FRS 102 section 34.22 provides the fair value hierarchy criteria upon which the financial instruments should be categorised, as defined below. A fair value measurement is categorised in its entirety on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

Impairment of financial instruments measured at amortised cost or cost:

For financial assets carried at amortised cost, the amount of an impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost less impairment, the impairment loss is the difference between the asset's carrying amount and the best estimate of the amount that would be received for the asset if it were to be sold at the reporting date.

Where indicators exist for a decrease in impairment loss, and the decrease can be related objectively to an event occurring after the impairment was recognised, the prior impairment loss is tested to determine reversal. An impairment loss is reversed on an individual impaired financial asset to the extent that the revised recoverable value does not lead to a revised carrying amount higher than the carrying value had no impairment been recognised. The amount of the reversal is recognised in income statement immediately.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in fair value, and are used by the Syndicate in the management of its short-term commitments.

Investment return

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

Realised gains and losses represent the difference between the net proceeds on disposal and the purchase price. Unrealised gains and losses on investments represent the difference between the fair value at the statement of financial position date and their purchase price. Movements in unrealised investment gains and losses comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals of the current period, or the valuation at the beginning of the year; as well as the reversal of previously recognised unrealised gains and losses in respect of investment disposed of in the current period.

Investment return is initially recorded in the Non-Technical Account and subsequently transferred to the Technical Account to reflect the investment return on funds supporting the underwriting business.

Deposits received from reinsurers

The Syndicate requires certain reinsurers to collateralise their potential exposure to the Syndicate through the depositing of funds under the control of the Syndicate. To the extent that the funds are not called upon as paid recoveries at the statement of financial position date they are recorded as cash with a corresponding liability recorded as deposits received from reinsurers.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 20%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the statement of financial position under the heading 'other debtors'.

No provision has been made for any other overseas tax payable by members on underwriting results.

Managing Agent's profit commission

ASL has agreed contractual terms with the capital providers to the Syndicate for the payment of profit commissions based on the performance of the individual years of account of the Syndicate. Profit commissions are accrued in line with the contractual terms and the development of the result of the underlying years of account.

Amounts charged to the Syndicate do not become payable until after the appropriate year of account closes, normally at 36 months, although the Managing Agent may receive payments on account of anticipated profit commissions in line with interim profits released to members.

Retirement benefit scheme costs ASL operates a defined contribution scheme through a related party, ANV Central Bureau of Services Limited (CBS). Pension contributions relating to staff working on behalf of the Syndicate are charged to the Syndicate and included within net operating expenses.

4. Risk and capital management

The Managing Agent has overall responsibility for the establishment and oversight of the Syndicate's risk management framework. The Risk Committee oversees the operation of the Syndicate's risk management framework and reviews and monitors the management of the risks to which the Syndicate is exposed. Risk management policies are established to identify and analyse the risks faced by the Syndicate, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Insurance Risk

i. Management of insurance risk

Insurance risk includes the risks that a policy will be written for too low a premium or provide inappropriate cover (underwriting risk), that the frequency or severity of insured events will be higher than expected (claims risk), or that estimates of claims subsequently prove to be insufficient (reserving risk). The Board manages insurance risk by agreeing its appetite for these risks annually through the business plan, which sets out targets for volumes, pricing, line sizes and retention by class of business. The Board then monitors performance against the business plan.

The Managing Agent uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business in major territories. Reserve adequacy is monitored through quarterly review by the Syndicate's actuaries. The Reserving Committee performs a comprehensive review of the projected reserves, both gross and net of reinsurance, and makes recommendations to the Managing Agent's board of directors, via the executive committee, as to the claims provisions to be established. In addition the Agency receives independent external analysis of the reserve requirements annually.

Binding authority arrangements are an important part of the business and present operational risk to the Syndicate. The Managing Agent has established a dedicated Product Governance Committee to oversee pre-bind reviews and on-going annual reviews including periodic on-site third party audits.

ii. Concentration of insurance risk

The Syndicate's exposure to insurance risk is well diversified as shown by the following table which provides an analysis of the geographical breakdown of its written premiums by destination.

Territory	2016 £'000	2015 £'000
United States of America	97,592	80,429
United Kingdom	104,320	89,722
European (exc. UK)	30,591	25,959
Asia	8,035	6,118
Other Worldwide	18,580	19,736
Total	259,118	221,964

iii. Sensitivity to insurance risk

The liabilities established could be significantly lower or higher than the ultimate cost of settling the claims arising. This level of uncertainty varies between the classes of business and the nature of the risk being underwritten and can arise from developments in case reserving for large losses or catastrophes or from changes in the level of attritional losses. A five per cent increase or decrease in the ultimate cost of settling gross claims arising is considered to be reasonably possible at the reporting date and would have the following approximate effect on the result of the Syndicate.

	2016 £'000		2015 £'000	
	Gross	Net	Gross	Net
5% increase in total claims liabilities	(16,018)	(10,770)	(10,154)	(7,668)
5% decrease in total claims liabilities	16,018	10,770	10,154	7,668

Investment risk

The key aspect of investment risk is the risk of the Syndicate's investments not meeting their anticipated returns. All investments are managed under the direction of the Investment Committee. The broad investment strategy adopted is focused on capital preservation and in that context on maximising return while maintaining a low risk portfolio. Investment management has been outsourced to professional fund managers whose performance is monitored by the Investment Committee.

Credit risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation.

The Syndicate is exposed to credit risk in respect of the following:

- Debt securities;
- Units in unit trusts and overseas deposits;
- Cash at bank and deposits with credit institutions;
- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of settled claims;
- Amounts due from group undertakings; and
- Amounts due from insurance intermediaries.

The Syndicate's credit risk in respect of debt securities is managed by placing limits on its exposure to a single counterparty, by reference to the credit rating of the counterparty. The Syndicate also limits the amount of cash and cash equivalents that can be deposited with a single counterparty.

The Syndicate's exposure to reinsurance counterparties is managed by the Executive Committee which establishes standards applicable to all reinsurers and the reinsurance department which monitors the financial status of reinsurance debtors. The Board's policy is that the Syndicate will only reinsure with businesses rated A- or higher unless collateralised.

The credit rating of the assets within the statement of financial position is as follows:

As at 31 December 2016	AAA £'000	AA £'000	A £'000	BBB £'000	Not rated £'000	Total £'000
Financial investments						
Shares and other variable yield securities and units in unit trusts	19,059	-	-	-	-	19,059
Debts securities and other fixed income securities	32,675	53,402	37,091	15,130	-	138,298
Overseas deposits	17,988	-	-	-	-	17,988
Reinsurers' share of technical provisions	-	19,350	85,571	-	43	104,964
Debtors arising out of reinsurance operations	-	2,708	5,056	-	1,935	9,699
Debtors arising out of direct insurance operations	-	-	-	-	115,342	115,342
Other debtors	-	-	-	-	1,638	1,638
Cash at bank and in hand	-	-	13,260	-	-	13,260
Total¹	69,722	75,460	140,978	15,130	118,958	420,248

¹The above analysis excludes those assets reported in the statement of financial position which are not cash settled and therefore not exposed to credit risk.

As at 31 December 2015	AAA £'000	AA £'000	A £'000	BBB £'000	Not rated £'000	Total £'000
Financial investments						
Shares and other variable yield securities and units in unit trusts	20,595	-	-	-	-	20,595
Debts securities and other fixed income securities	27,674	33,359	26,652	11,295	-	98,980
Overseas deposits	11,595	-	-	-	-	11,595
Reinsurers' share of technical provisions	889	9,801	38,636	-	3	49,329
Debtors arising out of reinsurance operations	-	1,230	4,793	-	-	6,023
Debtors arising out of direct insurance operations	-	-	-	-	94,793	94,793
Other debtors	-	-	-	-	2,264	2,264
Cash at bank and in hand	-	-	7,076	-	-	7,076
Total¹	60,753	44,390	77,157	11,295	97,060	290,655

¹The above analysis excludes those assets reported in the statement of financial position which are not cash settled and therefore not exposed to credit risk.

Financial assets that are past due or impaired

The Syndicate has debtors arising from direct insurance and reinsurance operations that are past due but not impaired at the reporting date. These debtors have been individually assessed for impairment by considering information such as the occurrence of significant changes in the counterparty's financial position, patterns of historical payment information and disputes with counterparties. The Syndicate does not consider these debtors to be impaired on the basis of stage collection of amounts owed to the Syndicate.

An analysis of the carrying amounts of past due or impaired debtors is presented in the table below.

	2016 £'000	2015 £'000
Debtors arising from direct insurance operations		
Past due but not impaired financial assets:		
Past due by:		
1 to 90 days	347	111
91 to 180 days	280	198
More than 180 days	1,777	2,682
Past due but not impaired financial assets	2,404	2,991
Impaired financial assets	-	-
Neither past due nor impaired financial assets	112,938	91,802
Net carrying value	115,342	94,793

There are no impaired or past due debtors arising from reinsurance operations.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or insurance contract will fluctuate because of changes in market prices which could be caused by movements in interest rates or exchange rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Interest rate risk arises primarily from the Syndicate's financial investments, cash and overseas deposits. The risk of change in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The Investment Committee monitors the duration of these assets on a regular basis. An analysis of the Syndicate's sensitivity to interest rate changes on the result and net assets of the Syndicate is presented in the following table.

	2016 Profit or loss for the year £'000	2015 Profit or loss for the year £'000
Interest rate risk		
+ 50 basis points shift in yield curves	(787)	(791)
- 50 basis points shift in yield curves	787	791

The key aspect of exchange rate risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Managing Agent's Chief Financial Officer (CFO) reviews currency matching quarterly. Where there is a significant mismatch, appropriate risk mitigation techniques to minimise the effects of currency movements are considered such as the use of currency forward contracts.

The table below summarises the carrying value of the Syndicate's assets and liabilities, at the reporting date:

As at 31 December 2016	Sterling £'000	Euro £'000	US Dollar £'000	Can Dollar £'000	Total £'000
Total assets	74,135	28,622	395,015	11,137	508,909
Total liabilities	(74,946)	(42,968)	(399,474)	(8,991)	(526,379)
Net assets / (liabilities)	(811)	(14,346)	(4,459)	2,146	(17,470)

As at 31 December 2015	Sterling £'000	Euro £'000	US Dollar £'000	Can Dollar £'000	Total £'000
Total assets	70,541	5,593	276,893	6,944	359,971
Total liabilities	(59,324)	(21,480)	(280,690)	(5,332)	(366,826)
Net assets/ (liabilities)	11,217	(15,887)	(3,797)	1,612	(6,855)

If the exchange rates of all non-USD currencies moved by a foreseeable 5% either to the benefit or detriment of the Syndicate at the same time, the impact on both the result for the year and the members' balances, expressed in presentational GBP terms, would be £0.7m (2015: £0.7m).

Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. The CFO monitors cash flows and manages liquid assets to ensure that cash is available to meet obligations and operational liquidity needs. The table below summarises the maturity profile of the Syndicate's statement of financial position based on the estimated timing of claims payments and other undiscounted contractual obligations.

As at 31 December 2016	Undiscounted net cash flows					
	Carrying amount	Total cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	19,059	19,059	19,059	-	-	-
Debts securities and other fixed income securities	138,298	138,298	46,283	40,711	49,483	1,821
Overseas deposits	17,988	17,988	17,988	-	-	-
Reinsurers' share of technical provisions:						
Reinsurers' share of outstanding claims	104,964	104,964	37,192	23,553	31,541	12,678
Reinsurers' share of unearned premiums ¹	37,209	-	-	-	-	-
Insurance and reinsurance receivables	125,041	125,041	124,998	43	-	-
Cash at bank and in hand	13,260	13,260	13,260	-	-	-
Deferred Acquisition Costs ¹	45,209	-	-	-	-	-
Other assets	7,881	7,881	7,486	169	210	16
Total assets	508,909	426,491	262,266	64,476	81,234	14,515
Gross share of technical provisions:						
Outstanding claims	(324,160)	(324,160)	(120,193)	(73,742)	(92,727)	(37,498)
Unearned premiums ¹	(158,897)	-	-	-	-	-
Insurance and reinsurance payables	(31,544)	(31,544)	(31,544)	-	-	-
Other creditors	(11,778)	(11,778)	(11,778)	-	-	-
Total liabilities	(526,379)	(367,482)	(163,515)	(73,742)	(92,727)	(37,498)
Net assets / (liabilities)	(17,470)	59,009	102,751	(9,266)	(11,493)	(22,983)

¹ These assets/liabilities are not cash settled and therefore have no future net cash flow in the above note.

As at 31 December 2015 Restated ²	Undiscounted net cash flows					
	Carrying amount	Total cash flows	Less than 1 year	1-2 years	2-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	20,595	20,595	20,595	-	-	-
Debts securities and other fixed income securities	98,980	98,980	22,662	39,955	34,468	1,895
Overseas deposits	11,595	11,595	11,595	-	-	-
Reinsurers' share of technical provisions						
Reinsurers' share of outstanding claims	49,329	49,329	13,010	11,121	17,861	7,337
Reinsurers' share of unearned premiums ¹	31,802	-	-	-	-	-
Insurance and reinsurance receivables	100,813	100,813	100,813	-	-	-
Cash at bank and in hand	7,076	7,076	7,076	-	-	-
Deferred Acquisition Costs ¹	36,383	-	-	-	-	-
Other assets	3,398	3,398	3,096	175	114	13
Total assets	359,971	291,786	178,847	51,251	52,443	9,245
Gross share of technical provisions:						
Outstanding claims	(205,441)	(205,441)	(68,731)	(47,994)	(63,591)	(25,125)
Unearned premiums ¹	(131,858)	-	-	-	-	-
Insurance and reinsurance payables	(24,554)	(24,554)	(24,554)	-	-	-
Other creditors	(4,973)	(4,973)	(4,973)	-	-	-
Total liabilities	(366,826)	(234,968)	(98,258)	(47,994)	(63,591)	(25,125)
Net assets / (liabilities)	(6,855)	56,818	80,589	3,257	(11,148)	(15,880)

¹ These assets/liabilities are not cash settled and therefore have no future net cash flow in the above note.

² The 2015 note has been restated to be comparative to the 2016 note.

In the previous tables debt securities are presented according to their maturity dates. In practice cash could be realised through the sale of these investments which are actively traded. The disclosure does not take account of premiums received from new business written which can be used to pay claims arising.

Operational risk

This is the risk that errors caused by people, processes, systems or external events lead to losses to the Syndicate. The Managing Agent seeks to manage this risk through the use of detailed procedures manuals and a structured programme of testing of processes and systems by internal audit. The internal audit process is designed to provide management and the Board, through its Audit Committee, with reasonable assurance that the controls and procedures are able to contain the risks within acceptable limits.

Regulatory risk

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Managing Agent is required to comply with the requirements of the Financial Conduct Authority (FCA), the Prudential Regulation Authority (PRA) and the Council of Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US Situs business. The Managing Agent has a compliance officer who monitors regulatory developments and assesses the impact on the Managing Agent's policy.

Capital management (excluding Funds at Lloyd's)

The Managing Agent's objectives in managing the capital of the Syndicate, consistent with the risk profile and the regulatory and market requirements of its business are:

- To match the profile of assets and liabilities, taking account of the risks inherent in the business;
- To satisfy the requirements of the policyholders, regulators and rating agencies; and
- To manage exposure to movements in exchange rates.

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to the supervision of the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000 and in accordance with the Solvency II framework. Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II requirements, and beyond that to meet its own financial strength, licence and ratings objectives.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 1861 is not disclosed in these financial statements.

Lloyd's capital setting process

In order to meet Lloyd's requirements, each syndicate is required to calculate its Solvency Capital Requirement (SCR) for the prospective underwriting year. This amount must be sufficient to cover a 1 in 200 year loss, reflecting uncertainty in the ultimate run-off of underwriting liabilities (SCR to ultimate). The Syndicate must also calculate its SCR at the same confidence level but reflecting uncertainty over a one year time horizon (one year SCR) for Lloyd's to use in meeting Solvency II requirements. The SCRs of each syndicate are subject to review by Lloyd's and approval by the Lloyd's Capital and Planning Group.

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicates on which it participates though not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR is therefore determined by the sum of the member's shares of the Syndicates' SCR to ultimate. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss to ultimate for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, the combination of both is known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift was 35% of the member's SCR to ultimate, plus an additional 20% uplift until the mid-year 2016 Coming into Line.

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), assets held and managed within a syndicate (Funds in Syndicate), or as the member's share of the members' balances on each syndicate on which it participates. Accordingly, all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the Statement of Financial Position on pages 16 to 17, represent resources available to meet members' and Lloyd's capital requirements.

Funds at Lloyd's

Funds at Lloyd's (FAL) are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members underwriting liabilities. The level of FAL that Lloyd's requires a member to maintain is determined by Lloyd's based on PRA requirements and resource criteria. FAL has regard to a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the Managing Agent, no amount has been shown in these financial statements by way of such capital resources. However, the Managing Agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses through a formal process controlled by Lloyd's.

5. Business class analysis

An analysis of the technical account result by business class before investment return is set out below:

2016 Calendar Year	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance						
Accident and health	18,029	19,776	(8,192)	(10,219)	(787)	578
Miscellaneous	145	148	(27)	(69)	1	53
Marine, Aviation and Transport	35,606	36,119	(38,782)	(13,180)	11,537	(4,306)
Fire and other damage to Property	46,031	45,003	(20,592)	(17,980)	(4,808)	1,623
Third party liability	79,761	66,458	(50,512)	(29,483)	7,192	(6,345)
Credit and Suretyship	16,423	20,610	(11,214)	(7,959)	1,131	2,568
Total direct	195,995	188,114	(129,319)	(78,890)	14,266	(5,829)
Reinsurance	63,123	67,210	(44,762)	(21,613)	(2,615)	(1,780)
Total	259,118	255,324	(174,081)	(100,503)	11,651	(7,609)

2015 Calendar Year	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance						
Accident and health	18,389	17,993	(7,958)	(8,938)	(1,111)	(14)
Miscellaneous	89	166	(125)	(38)	(18)	(15)
Marine, Aviation and Transport	29,510	29,439	(12,763)	(10,042)	(4,506)	2,128
Fire and other damage to Property	37,737	40,999	(12,847)	(13,498)	(7,960)	6,694
Third party liability	58,004	40,853	(24,466)	(20,308)	(2,778)	(6,699)
Credit and Suretyship	18,650	14,866	(6,311)	(6,878)	(1,040)	637
Total direct	162,379	144,316	(64,470)	(59,702)	(17,413)	2,731
Reinsurance	59,585	62,306	(26,934)	(20,173)	(9,619)	5,580
Total	221,964	206,622	(91,404)	(79,875)	(27,032)	8,311

Gross operating expenses are the same as net operating expenses shown in the income statement as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2016 and 2015.

Commissions on direct insurance gross premiums earned during 2016 were £46.3m (2015: £46.8m).

All premiums relate to contracts concluded in the UK.

The gross premiums written for direct insurance by business origin are presented in the table below:

	2016 £'000	2015 £'000
UK	68,131	57,388
Other EU countries	25,284	20,235
US	82,830	66,531
Other	19,750	18,225
Total	195,995	162,379

6. Technical provisions

The Syndicate has applied a similar approach at the current year end to that applied at the previous year end in establishing the technical provisions for claims outstanding reserves and reinsurers' share thereof. Included within net claims incurred of £102.4m (2015: £68.5m) is a deterioration of £2.8m (2015: improvement of £9.0m) to claims reserves established at the prior year end principally due to unfavourable developments on Professional Lines and Marine Liability with partially offsetting favourable developments across the other classes.

	Unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2016	131,858	205,441	337,299
Movement in provision	3,794	79,363	83,157
Foreign exchange	23,245	39,356	62,601
At 31 December 2016	158,897	324,160	483,057
Reinsurance			
At 1 January 2016	31,802	49,329	81,131
Movement in provision	(1,557)	44,751	43,194
Foreign exchange	6,964	10,884	17,848
At 31 December 2016	37,209	104,964	142,173
Net technical provisions			
At 31 December 2016	121,688	219,196	340,884
At 31 December 2015	100,056	156,112	256,168
	Unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2015	111,708	224,779	336,487
Movement in provision	15,342	(28,133)	(12,791)
Foreign exchange	4,808	8,795	13,603
At 31 December 2015	131,858	205,441	337,299
Reinsurance			
At 1 January 2015	26,245	48,510	74,755
Movement in provision	4,329	(1,159)	3,170
Foreign exchange	1,228	1,978	3,206
At 31 December 2015	31,802	49,329	81,131
Net technical provisions			
At 31 December 2015	100,056	156,112	256,168
At 31 December 2014	85,463	176,269	261,732

7. Net operating expenses

	2016 £'000	2015 £'000
Brokerage and commissions	71,504	50,624
Other acquisition costs	17,155	13,520
Acquisition costs	88,659	64,144
Change in deferred acquisition costs	(3,823)	(2,340)
Administrative expenses	11,276	14,725
Members' standard personal expenses	4,391	3,346
	100,503	79,875

8. Auditors' remuneration

	2016 £'000	2015 £'000
Audit of syndicate annual accounts	89	86
Other services pursuant to regulations and Lloyd's byelaws	84	73
Other services relating to Statement of Actuarial Opinion	77	75
	250	234

9. Staff numbers and costs

All staff are employed by a related party, ANV Central Bureau of Services Limited (CBS). The average number of persons employed by CBS, but working for the Syndicate during the year, analysed by category, was as follows:

	2016	2015
Finance and administration	37	31
Underwriting	56	52
Claims	10	6
	103	89

The following amounts were recharged by CBS to the Syndicate in respect of payroll costs:

	2016 £'000	2015 £'000
Wages and salaries	13,024	11,874
Social security costs	1,692	1,467
Other pension costs	798	762
	15,514	14,103

10. Key management personnel compensation

The Directors of ASL received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:-

	2016 £'000	2015 £'000
Emoluments	1,111	1,161
Contributions to defined contribution pension schemes	41	24
	<u>1,152</u>	<u>1,185</u>

The remuneration of 11 directors is charged to the Syndicate (2015: 10). Profit-related remuneration for the directors and Active Underwriter is charged to the Syndicate. No other compensation was payable to key management personnel.

The active underwriter received the following aggregate remuneration charged as a syndicate expense and was the highest paid member of key management personnel in respect of amounts charged to the Syndicate.

	2016 £'000	2015 £'000
Emoluments	563	536
Contributions to defined contribution pension schemes	15	29
	<u>578</u>	<u>565</u>

11. Investment return

The investment return transferred from the technical account to the non-technical account comprises the following:

	2016 £'000	2015 £'000
Investment income:		
Interest and dividend income	2,426	1,764
Realised gains	322	99
Unrealised gains on investments	250	29
Investment expenses and charges:		
Investment management expenses, including interest	(114)	(209)
Losses on the realisation of investments	(266)	(321)
Unrealised losses on investments	(550)	(780)
Total investment return transferred to the technical account from the non-technical account	<u>2,068</u>	<u>582</u>

The total income, expenses, net gains or losses, including changes in fair value, recognised on all financial assets and financial liabilities comprises the following:

	2016 £'000	2015 £'000
Financial assets at fair value through profit or loss	2,182	737
Financial assets at amortised cost:		
Interest income	-	54
Investment management expenses, excluding interest	(114)	(209)
Total investment return	<u>2,068</u>	<u>582</u>

12. Financial instruments

The carrying values of the Syndicate's financial assets and liabilities are summarised by category below:

	2016 £'000	2015 £'000
Financial assets		
<i>Measured at fair value through profit and loss</i>		
• Shares and other variable yield securities and units in unit trusts	19,059	20,595
• Debt securities and other fixed income securities	138,298	98,980
	<u>157,357</u>	<u>119,575</u>
• Overseas deposits (see note 16)	17,988	11,595
<i>Total financial assets measured at fair value through profit and loss</i>	<u>175,345</u>	<u>131,170</u>
<i>Measured at cost</i>		
• Cash and cash equivalents	13,260	7,076
	<u>13,260</u>	<u>7,076</u>
<i>Measured at undiscounted amount receivable</i>		
• Other debtors (see note 15)	1,638	2,264
	<u>1,638</u>	<u>2,264</u>
Total financial assets	<u>190,243</u>	<u>140,510</u>

Only deposits with credit institutions with maturities of three months or less that are used by the Syndicate in the management of its short-term commitments are included in cash and cash equivalents.

Financial liabilities

Measured at cost

- | | | |
|--|--------|-------|
| • Reinsurance collateral (see note 18) | 10,901 | 3,282 |
|--|--------|-------|

Measured at undiscounted amount payable

- | | | |
|---------------------------------|-----|-------|
| • Other creditors (see note 21) | 877 | 1,690 |
|---------------------------------|-----|-------|

Total financial liabilities

	<u>11,778</u>	<u>4,972</u>
--	---------------	--------------

Shares and other variable yield securities, units in unit trusts and debt securities and other fixed income securities are all listed on recognised stock exchanges. The cost on acquisition of debt securities and other fixed income securities was £137.9m (2015: £99.3m). The cost on acquisition of other financial instruments is the same as the carrying value.

All investments are measured at fair value through profit or loss. The Syndicate did not hold any derivative financial instruments during the year (2015: none). The Syndicate does not enter into or trade instruments for speculative purposes.

The Syndicate classifies its financial instruments held at fair value in its statement of financial position using a fair value hierarchy, as follows:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The table below analyses financial instruments held at fair value in the Syndicate's statement of financial position at the reporting date by its level in the fair value hierarchy.

31 December 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets				
Shares and other variable yield securities and units in unit trusts	338	18,721	-	19,059
Debt securities and other fixed income securities	23,308	114,990	-	138,298
Overseas deposits	-	17,988	-	17,988
	<u>23,646</u>	<u>151,699</u>	<u>-</u>	<u>175,345</u>

31 December 2015	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets				
Shares and other variable yield securities and units in unit trusts	562	20,033	-	20,595
Debt securities and other fixed income securities	12,206	86,774	-	98,980
Overseas deposits	-	11,595	-	11,595
	<u>12,768</u>	<u>118,402</u>	<u>-</u>	<u>131,170</u>

Information on the methods and assumptions used to determine fair values for each major category of financial instrument measured at fair value is provided below.

Some government and supranational securities are listed on recognised exchanges and are generally classified as level 1 in the fair value hierarchy. Those that are not listed on a recognised exchange are generally based on composite prices of recent trades in the same instrument and are generally classified as level 2 in the fair value hierarchy.

Shares and other variable yield securities and units in unit trusts represent the Syndicate's interest in money market funds. The categorisation of the fair value of these by level has been determined by looking through the funds to the underlying holdings within the collective investment schemes. Corporate bonds, including asset backed securities that are not listed on a recognised exchange or are traded in an established over-the-counter market, are also mainly valued using composite prices. Where prices are based on multiple quotes and those quotes are based on actual recent transactions in the same instrument the securities are classified as level 2, otherwise they are classified as level 3 in the fair value hierarchy.

Debt securities are generally valued using prices provided by external pricing vendors. Pricing vendors will often determine prices by consolidating prices of recent trades for identical or similar securities obtained from a panel of market makers into a composite price. The pricing service may make adjustments for the elapsed time from a trade date to the valuation date to take into account available market information. Lacking recently reported trades, pricing vendors will use modelling techniques to determine a security price.

Management performs an analysis of the prices obtained from pricing vendors to ensure that they are reasonable and produce a reasonable estimate of fair value. Management considers both qualitative and quantitative factors as part of this analysis.

13. Debtors arising out of direct insurance operations

	2016	2015
	£'000	£'000
Due within one year – intermediaries	<u>115,342</u>	<u>94,793</u>

14. Debtors arising out of reinsurance operations

	2016	2015
	£'000	£'000
Due within one year – intermediaries	9,656	6,019
Due after one year – intermediaries	43	-
	<u>9,699</u>	<u>6,019</u>

15. Other debtors

	2016 £'000	2015 £'000
Balances with group companies	1,638	2,212
Other debtors	-	52
	<u>1,638</u>	<u>2,264</u>

16. Other assets - Other

	2016 £'000	2015 £'000
Other – overseas deposits	<u>17,988</u>	<u>11,595</u>

Other assets comprise overseas deposits which are advanced as a condition of conducting underwriting business in certain countries.

17. Deferred acquisition costs

	2016 £'000	2015 £'000
At 1 January	36,384	33,038
Movement in provision	3,823	2,340
Exchange adjustments	<u>5,002</u>	<u>1,006</u>
At 31 December	<u>45,209</u>	<u>36,384</u>

18. Deposits received from reinsurers

	2016 £'000	2015 £'000
Reinsurance collateral	<u>10,901</u>	<u>3,282</u>

Cash at bank and in hand includes £10.9m in relation to funds deposited by reinsurers to collateralise their potential exposure (2015: £3.3m). A corresponding creditor is recorded as deposits received from reinsurers.

19. Creditors arising out of direct insurance operations

	2016 £'000	2015 £'000
Due within one year – intermediaries	<u>4,761</u>	<u>645</u>

20. Creditors arising out of reinsurance operations

	2016 £'000	2015 £'000
Due within one year – intermediaries	<u>26,783</u>	<u>23,910</u>

21. Other creditors

	2016 £'000	2015 £'000
Balances with group companies	26	1,690
Profit commission payable	<u>851</u>	<u>-</u>
	<u>877</u>	<u>1,690</u>

22. Claims development

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. Balances have been translated at exchange rates prevailing at 31 December 2016 in all cases. All balances presented are in respect of premiums earned to statement of financial position date and therefore reflect the pattern of earning and risk exposure over a number of calendar years. The entity chose not to disclose information about claims development that occurred earlier than five years before the end of the first financial year in which FRS 103 is applied in line with a transitional provision (FRS 103.6.3).

Gross basis as at 31 December 2016:

Pure underwriting year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Incurring gross claims							
At end of underwriting year	61,410	79,554	50,524	62,887	63,931	74,799	
one year later	99,925	128,144	119,663	117,250	151,993	-	
two years later	97,524	129,763	116,812	130,588	-	-	
three years later	97,182	128,912	124,785	-	-	-	
four years later	94,344	131,846	-	-	-	-	
five years later	94,844	-	-	-	-	-	
Gross ultimate claims on premium earned to date	94,844	131,846	124,785	130,588	151,993	74,799	708,855
Gross ultimate claims on premium earned to date for 2010 & Prior years	10,395	-	-	-	-	-	10,395
Less gross claims paid	(87,646)	(103,325)	(91,378)	(69,444)	(35,301)	(7,996)	(395,090)
Gross claims reserves	17,593	28,521	33,407	61,144	116,692	66,803	324,160

Net basis as at 31 December 2016:

Pure underwriting year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
Incurring net claims							
At end of underwriting year	59,060	67,176	44,864	50,400	49,510	58,332	
one year later	77,298	101,943	106,107	89,081	100,454	-	
two years later	74,424	101,101	101,347	89,216	-	-	
three years later	72,711	102,165	105,386	-	-	-	
four years later	70,599	102,038	-	-	-	-	
five years later	69,316	-	-	-	-	-	
Net ultimate claims on premium earned to date	69,316	102,038	105,386	89,216	100,454	58,332	524,742
Net ultimate claims on premium earned to date for 2010 & Prior years	8,335	-	-	-	-	-	8,335
Less net claims paid	(63,844)	(80,773)	(82,614)	(50,826)	(29,505)	(6,319)	(313,881)
Net claims reserves	13,807	21,265	22,772	38,390	70,949	52,013	219,196

23. Year of account result development

The table below presents the annual results for each year of account until the earlier of the current year end and closure of the year of account by reinsurance to close. Subsequent movements in results for closed years of account are reflected within the results for the year into which they closed. The Syndicate has a significant proportion of unearned business at the end of year one in comparison with its peers as a result of the longer earnings profile of the Consumer Products business written relative to Property and Casualty insurance. A deficit therefore occurs in the first year of a year of account as a result of the timing of expense charges. This would be expected to improve in subsequent years.

	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	(Loss)/profit before members' agents fees £'000
Year of Account								
2010	(12,948)	(4,782)	1,355					(16,375)
2011		(22,803)	16,289	8,227				1,713
2012			(21,243)	(2,948)	17,703			(6,488)
2013				(8,864)	1,687	11,730		4,553
2014					(9,524)	10,055	3,479	4,010
2015						(11,939)	6,834	(5,105)
2016							(16,374)	(16,374)
FIS Income	-	-	-	(310)	2,379	1,477	-	
Calendar year result	(12,948)	(27,585)	(3,599)	(3,895)	12,245	11,323	(6,061)	

24. Retirement benefit schemes

ANV Central Bureau of Services Limited (CBS) operates a defined contribution retirement benefit scheme for all qualifying employees. The funds of the scheme are administered by Aviva plc and are held separately. Contributions are paid by CBS and staff. The group also makes payments into certain other staff personal pension plans. The total expense recharged from CBS to the Syndicate's income statement for the year ended 31 December 2016 in respect of these was £0.8m (2015: £0.8m).

25. Related parties

Prior to 15 July 2016, ANV Holdings (UK) Limited (AHUK) held 80% of the ordinary shares of ANV Syndicate Management Limited (ASML) with the remaining 20% held by Ryan Specialty Group, LLC (RSG). Following AHUK's acquisition of RSG's 20% shareholding on 15 July 2016, AHUK owns 100% of the issued share capital of ASML. ASML is the immediate parent company of AmTrust Syndicates Limited (formerly ANV Syndicates Ltd - ASL). AHUK is a wholly owned subsidiary of ANV Risk BV and the ultimate holding company of the ANV Group is ANV Holdings BV.

On 7 November 2016, ANV Holdings BV, and its subsidiary undertakings (ANV Group), was acquired by AmTrust Lloyd's Holdings (UK) Ltd (an indirect, wholly owned subsidiary of AmTrust Financial Services, Inc.) from the company's former lead investor, the Ontario Teachers' Pension Plan. Following this transaction the name of ANV's managing agency was changed to AmTrust Syndicates Ltd.

Transactions with Group Entities

Lloyd's market regulations require that a Managing Agent be responsible for engaging underwriting staff and managing the affairs of each syndicate at Lloyd's on behalf of the syndicate members.

From 1 January 2015 ANV Central Bureau of Services Limited (CBS), a group company, has performed the recharging of all costs to the Syndicate under intragroup service agreements. These arrangements have been updated to include relevant AmTrust service companies (AmTrust Lloyd's Holdings Ltd and AmTrust Management Services Ltd) with effect from 7 November 2016. No recharges were made from these entities during the period. Profit-related remuneration for the Syndicate's underwriting staff is charged to the Syndicate.

ANV Corporate Name Limited provides 100% of the capacity for the 2013, 2014, 2015 and 2016 years of account for Syndicate 1861. AmTrust Corporate Member Limited provides 100% of the capacity for the 2017 year of account.

Syndicate 1969, a syndicate managed by ASL under a 'turnkey' arrangement until the successful launch of its own managing agency on 1 August 2015, purchased an Energy excess of loss reinsurance policy on which Syndicate 1861 participates. Subsequent to the establishment of its own managing agency, Syndicate 1969 is no longer considered a related party. During 2015 reinsurance premiums amounted to £0.4m.

The Syndicate acts a consortium leader, with ASL as the consortium manager, for a number of consortia on which Syndicate 5820, another syndicate managed by ASL and participated on by ANV Corporate Name Limited, is a member. During the period £51.1m (2015: £23.7m) was written by the Syndicate as consortium leader on behalf of Syndicate 5820. Fees are charged by ASL as the consortium manager on behalf of the Syndicate to the other consortium members. At 31 December 2016 the Syndicate had accrued income of £1.3m (2015: £0.3m) due from Syndicate 5820 in this respect. During 2015, £3.1m was written by 1861 as consortium leader on behalf of Syndicate 1969 with fees of £0.2m due from Syndicate 1969 as 31 December 2015 in this respect.

A proportion of the business written by the Syndicate is sourced from companies within the AmTrust Group, and, prior to the acquisition of ANV, the ANV Group. These include:

- ANV Global Services Inc.; and
- ANV Global Services Ltd

Transactions with the above entities are as set out below (£m):

2016	ANV Global Services Inc.	ANV Global Services Ltd.
Gross premium written	3.2	11.5
Commission	0.4	1.6
Payable at 31 December 2016	2.8	3.0

2015	ANV Global Services Inc.	ANV Global Services Ltd.
Gross premium written	2.5	13.0
Commission	0.3	1.9
Payable at 31 December 2015	0.2	4.6

The Directors of ASL consider the commissions charged to the Syndicate by these companies within the ANV Group to be consistent with those payable to a third party for similar services.

At the statement of financial position date, the Syndicate has amounts due to ANV Group companies, which are included in 'Other debtors' or 'Other creditors' on the statement of financial position:

	2016 £'000	Restated 2015 ¹ £'000
Other Debtors		
ANV Central Bureau of Services	976	2,066
ANV Global Services Ltd	12	2
ANV Corporate Name Ltd	650	547
	<u>1,638</u>	<u>2,615</u>
Other Creditors		
AmTrust Syndicates Ltd	-	168
ANV Central Bureau of Services	-	1,521
ANV Global Services Ltd	26	-
ANV Global Services Inc.	-	403
	<u>26</u>	<u>2,092</u>

¹ This note has been restated to separately classify balances previously reported as being held with ANV Group into the individual counterparties and to include an amount of £166k not previously reported as being due to with group companies.

In addition, the Syndicate has accrued profit commission payable to the Managing Agent of £0.9m (2015: £0.0m) in respect of the 2014 Year of Account. No amounts have been accrued on the subsequent years of account. Profit commission is not paid until the year of account in respect of which it was earned closes after three years.

ASL and other group companies have charged the Syndicate with the following expenses during the year:

	2016 £'000	2015 £'000
Managing agent fees charged by ASL	1,644	1,480
Group recharges from CBS	27,351	26,018
Total	28,995	27,498

Group recharges from CBS, which are charged on a cost basis, predominantly represent recharges of staff costs for employees working on syndicate business as well as other administrative expenses including accommodation, professional fees and information technology.

Transactions with other entities

As part of the sale of JMAL to the ANV Group in 2013, Ryan Specialty Group, LLC (RSG) acquired a 20% shareholding in ASML, the immediate parent company of ASL.

Syndicate 1861 may source business from RSG on the open market through Lloyd's brokers. All risks are entered into on an arm's length basis and ASL has unfettered underwriting discretion for all opportunities.

Prior to the commencement of underwriting on the 2015 year of account an agreement was entered into with Securis with respect to the period beginning on 1 January 2015 to support the Funds at Lloyd's of ANV Corporate Name Limited, an ANV group company and sole participant on the capacity of the Syndicate, through the provision of a letter of credit backed by an excess of loss reinsurance contract. The Syndicate also purchased reinsurance protection through Axe Insurance PCC Ltd, a Securis group company, on normal terms for such reinsurance.

Directors' interests

Members of the ASL Board are also directors of other ANV Group companies that transact with ASL and/or the Syndicate, as follows:

- Adam Barker (resigned from ASL 31 October 2016) was a director of ANV Corporate Name Limited (resigned 31 October 2016);
- Janice Hamilton is a director of ANV Corporate Name Limited and ANV Central Bureau of Services Limited (appointed 7 November 2016); and
- Lynsey Cross (resigned from ASL 7 November 2016) is a director of ANV Central Bureau of Services Limited.

Neither the directors nor the active underwriter participate on the Syndicate.

Nicholas Pawson, a non-executive director of ASL is a non-executive director of Starr Managing Agents Limited (SMAL). SMAL is a member of the Starr group, which includes Starr Underwriting Agents Limited, a company which has delegated underwriting authority for specific classes of business for Syndicate 1861. There are a number of contracts between companies in the ASL group and companies in the SMAL group. All such contracts are negotiated on an arm's length basis. Both the boards of SMAL and ASL have been advised of the potential conflict of interest. Nicholas Pawson provided capital through a corporate entity to support underwriting on the 2013, 2014, 2015 and 2016 years of account of Syndicate 5820, another syndicate managed by ASL and a participant on a number of consortia led by Syndicate 1861. The consortia agreements were negotiated on an arm's length basis. The board of ASL has been advised of the potential conflict of interest.

Tony Hulse, a former non-executive director of ASL (resigned 7 November 2016), is a non-executive director of Apollo Syndicate Management Limited, the managing agency of Syndicate 1969 through which the Syndicate leads and participates on consortia arrangements with Syndicate 1969. The consortia agreements were negotiated on an arm's length basis. Both the boards of ASL and Apollo Syndicate Management Limited were advised of the potential conflict of interest.

26. Ultimate parent company

AmTrust Syndicate Limited's immediate parent is ANV Syndicate Management Limited ("ASML"), a company registered in England and Wales. The company's ultimate holding company is AmTrust Financial services, Inc. (AFS) a company incorporated in Delaware, USA and listed on the NASDAQ Stock Market. A copy of AFS's consolidated accounts can be obtained from that company's registered office, which is located at 59 Maiden Lane, 43rd Floor, New York, USA.

Important information about Syndicate Reports and Accounts

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

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HARDY

**Hardy (Underwriting Agencies) Limited: Syndicate 382
2016 Annual Report and Financial Statements**



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Directors and administration

Managing agent

Hardy (Underwriting Agencies) Limited

Non-executive directors

J M Anderson
A M D'Hulster
T F Motamed
G J Starling
T J Szerlong
H I Thomas
R Thomson (appointed 1 December 2016)

Executive directors

P J Gage
C A Kearney
D J Stevens
D J Brosnan

Managing agent's registered office

20 Fenchurch Street
London EC3M 3BY

Managing agent's registered number

1264271

Active underwriter

P J Gage

Bankers

Citibank N.A.
Barclays Bank plc

Investment managers

Goldman Sachs Asset Management International

Registered auditor

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

Reporting actuaries

KPMG Audit plc

Strategic report

Introduction

The directors of Hardy (Underwriting Agencies) Limited ("HUA") present their Strategic report for the year ended 31 December 2016. This report has been prepared in accordance with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

HUA is the managing agent for Syndicate 382 ("the Syndicate") whose principal activity is underwriting general insurance and reinsurance business at Lloyd's of London ("Lloyd's").

HUA is wholly owned by Hardy Underwriting Group plc ("HUG"), which is in turn wholly owned by Hardy Underwriting Bermuda Limited ("HUB"). Hardy Underwriting Limited ("HUL"), another wholly owned subsidiary of HUG is a corporate member of Lloyd's and is the sole provider of underwriting capacity to Syndicate 382.

HUB is wholly owned by The Continental Corporation ("TCC"), who are wholly owned CNA Financial Corporation ("CNAF"), which, in turn, is controlled by Loews Corporation ("Loews"). References to "CNA" in this report are to CNAF and its group undertakings.

CNA is the 8th largest U.S. commercial property and casualty insurance company. It has approximately 6,700 employees and its insurance products include commercial property and casualty coverages, including surety. CNA's products and services are primarily marketed through independent agents, brokers and managing general underwriters to a wide variety of customers, including small, medium and large businesses, insurance companies, associations, professionals and other groups.

Overview of results

The Syndicate reported a loss for 2016 of £6.8 million (2015: loss £9.9 million) with a calendar year combined ratio of 111.2% (2015: 106.4%).

The Syndicate reported an increase in gross premiums written for the year to £285.7 million compared to £267.9 million for 2015. The increase was recorded primarily in the Syndicate's newer lines of business, including Healthcare and certain Specialty lines. Additional investments have been made in the Syndicate's Singapore underwriting platform. Decreases in gross premiums written were recorded in other traditional lines of business driven by market conditions or as a result of strategic reductions.

Net premiums written in 2016 of £248.1 million represented an increase over the prior year of £218.9 million partly as a result of business growth and partly due to specific actions taken to reduce the Syndicate's overall expenditure on reinsurance.

On a calendar year basis the loss ratio of 71.9% represents an 8.9% increase over the prior year ratio of 63.0%. A significant driver of this increase was the occurrence of a number of large current accident year losses, the most notable of which emanated from the Syndicate's Specialty Lines business. Appropriate actions are being taken to reduce the Syndicate's exposure to such risks in the future. The Syndicate incurred lower than expected levels of losses emanating from natural catastrophes. The Syndicate also recorded a low level of favourable development of prior accident year loss reserves.

The Syndicate shares its operating and management structure with another group company, CNA Insurance Company Limited ("CICL"). Both companies operate under a combined operating platform with management and administrative services being provided by a service company, CNA Services (UK) Limited ("CNA Services"), an indirect subsidiary of CNAF. The Syndicate pays CNA Services, which employs all UK staff, a management fee for the provision of management and administration. The Syndicate expects cost savings to be realised over the coming years as a result of the synergies and efficiencies generated from the combined operating platform.

Strategic report - continued

Overview of results - continued

Syndicate operating expenses are made up of commissions paid to brokers and general administrative expenses. In addition, HUA charged the Syndicate a fixed fee of 0.075% of allocated capacity. Throughout 2016, all administrative expenses incurred in the UK were recharged from CNA Services, with expenses incurred in the Syndicate's Singapore branch borne directly. Expenses are allocated to the Syndicate from CNA Services based on a detailed allocation model which is regularly reviewed and updated.

The expense ratio for the year of 39.3% represented a decrease compared to the prior year ratio of 43.4%. This decrease was driven primarily by a focussed and disciplined approach to expense management.

The Syndicate continues to maintain a disciplined approach to expense management. Targeted and evaluated investments in new staff to support growth strategies have been made in 2016, where the Syndicate believes appropriate levels of return will be made. In addition, the Syndicate has made improvements to the technology that supports the underwriting and support functions, demonstrating the Syndicate's commitment to further developing its operating infrastructure.

Investment returns contributed £2.2 million (2015: £1.5 million) to the result in 2016. The Syndicate invests in shorter duration, high quality fixed income government and corporate securities. The Syndicate's investment managers operate within an agreed investment strategy determined by the Board of directors.

The Syndicate transacts insurance business in five main currencies (Pound sterling, Euro, US dollars, Canadian dollars and Japanese yen). The Syndicate manages the currency mix of its assets to match liabilities and mitigate the economic effects of exchange rate volatility. During the year the Syndicate recording gains on foreign exchange of £16.8 million (2015: £1.8 million), the main driver of which was the weakening of sterling against the US dollar.

Key performance indicators

The Syndicate uses a range of key performance indicators ("KPIs") to measure the performance of the Syndicate to determine how well it is performing against its objectives and overall strategy. These indicators are regularly reviewed by the Syndicate's management team and measured against plan and prior year data.

The following KPIs are considered most relevant to measuring the Syndicate's performance in 2016.

	2016 £m	2015 £m
Gross premiums written	285.7	267.9
Net written premiums	248.1	218.9
Profit/(loss) for the financial year	(6.8)	(9.9)
Loss ratio	71.9%	63.0%
Expense ratio	39.3%	43.4%
Combined ratio	111.2%	106.4%

Strategic report - continued

Financial position

Overview of financial position and capital requirements

For the 2014, 2015, 2016 and 2017 years of account, HUL provides 100% of the total underwriting capacity for all years of £330.0 million.

Capital to support the underwriting capacity for the Syndicate, known as Funds at Lloyd's ("FAL") is determined using HUA's Solvency II internal model, which operates under requirements prescribed by Lloyd's. The capital required by HUL to support the Syndicate's underwriting capacity is 63.9% of Syndicate capacity (2015: 62.1%).

The following table sets out the composition of the assets supporting the Syndicate capital requirement for the 2016 year of account participation via HUL's FAL.

	2016 £'000	2015 £'000
Proposed level of underwriting	330,000	330,000
Capital requirement	210,870	204,930
Satisfied by:		
Investments	168,843	156,312
Assets deposited on behalf of HUL by CICL	60,531	48,400
Solvency surplus/(deficit) adjustment	(11,548)	2,555
Total Funds at Lloyd's provided	217,826	207,267

A component of the FAL requirement is provided by CICL. This has been approved by the Prudential Regulation Authority ("PRA") and by Lloyd's.

Investments

To the extent possible, cash flows in excess of operational requirements were re-invested in the Syndicate's investment portfolio. The Syndicate has in place processes to monitor operating cash flows which ensure that investment returns are maximised whilst maintaining adequate cash resources to meet operating expense and claim requirements.

The Syndicate's investment guidelines are regularly reviewed and, as part of this process, the duration of the investment portfolio is managed to closely match the duration of the Syndicate's underlying liabilities. The Syndicate continues to invest primarily in high grade corporate and government bonds in accordance with its stated investment strategy.

Strategic report - continued

Business operations

The Syndicate operates primarily in the London market through its operations at Lloyd's. In addition, the Syndicate underwrites through the Lloyd's platform from operations in Singapore and China.

Underwriting staff and most support functions are located in the Syndicate's head office in London. Additional support services are provided from an office in Norwich. The Syndicate also operates a branch in Singapore and employs underwriting staff in China.

The Syndicate's strategy is to underwrite business with a focus on gross underwriting profit and to purchase reinsurance only where necessary to facilitate a meaningful line size or to protect against potential accumulations of exposure. Reinsurance is purchased on both a pro-rata and excess of loss basis with minimal use of facultative reinsurance. The Syndicate maintains a list of approved reinsurers and these typically have a rating of A or above. Any deviation from this list requires formal assessment, approval and appropriate measures to mitigate exposure.

The Syndicate will continue to transact general insurance and reinsurance business in its current classes and will develop new lines of business as appropriate to further diversify its portfolio.

Future developments

The Syndicate's core objectives are to be the provider of choice for its customers through the development of innovative products, to build sustainable long-term profitability, and to produce robust levels of organic growth in gross premiums written year on year.

To achieve these objectives the Syndicate is diversifying its product range and expanding its geographic reach. This includes the launch of new lines within the Lloyd's platform as well as a renewed focus on growth of the Syndicate's Singapore and Lloyd's China channels.

The Syndicate continues to make further improvements to its operating infrastructure with the aim of enhancing financial systems capabilities. In particular, the Syndicate is developing enhanced financial management information capabilities to enable the provision of more timely, accurate and detailed information to management to aid in the strategic decision making process.

The Syndicate is closely monitoring the political and economic developments related to the vote by the United Kingdom to leave the European Union ("EU") ("Brexit"). Hardy, through Lloyd's of London, uses Freedom of Services to write insurance business across the EU. Lloyd's of London have a project underway to ensure that Syndicates will retain the ability to write European business post Brexit if Freedom of Services is not retained. The Board is closely monitoring the Lloyd's of London project.

Strategic report - continued

Corporate governance

Ultimate responsibility for the Syndicate's affairs rests with the Board of directors. The Board is responsible for approving the Syndicate's business plan and its strategies with regard to risk management. The Board provides leadership based on a framework of controls and risk management disciplines and sets the Syndicate's risk appetite. The Board also seeks to ensure compliance with all relevant internal and external regulations governing Syndicate's activities. The Board meets quarterly.

The Board operates with three principal committees: an Audit Committee, a Risk Committee and an Underwriting Committee. Each committee has clear terms of reference for the matters for which it is responsible and is chaired by an independent non-executive director. Each committee reports to the Board. This forms the basic structure for the corporate governance framework which is reviewed and approved by the Board at least annually to ensure continued effectiveness.

The key objectives of the Audit Committee are to assist the Board to oversee: the integrity of the Syndicate's financial statements; the adequacy and effectiveness of the internal control environment; the qualifications and independence of the Syndicate's external auditors; and the performance of internal audit staff.

The key objectives of the Risk Committee are: to raise the level of risk awareness and accountability; to integrate an effective risk management process into the organisational structure, decision making process and the Syndicate's culture; and to provide a mechanism for oversight of all risk management issues. It also monitors the Syndicate's risk-based capital and compliance with Solvency II. The Risk Committee assesses compliance with the Syndicate's risk management strategy, risk policies and risk appetite, while ensuring that the risk register is both up to date and adequate. The Risk Committee oversees all processes that underpin the Syndicate's Own Risk and Solvency Assessment ("ORSA"). It monitors all key risks, including emerging risks, and related mitigation and controls.

The key objectives of the Underwriting Committee are: to ensure appropriate governance and control over underwriting, claims and reinsurance operations; direction over the use of rating models and pricing tools; oversight and control of delegated underwriting and coverholder arrangements; monitoring underwriting and claims audit and review processes; to review and challenge underwriting business plans and current performance; to oversee reinsurance strategy; to oversee and monitor risk appetites and limits.

Various other sub-groups cover specific areas of responsibility. The sub-groups, which meet regularly throughout the year and report to either the Audit, Risk or Underwriting committees, include:

- Reinsurance Group
- Internal Controls and Attestation Group
- Investment Group
- Legal, Regulatory and Compliance Group
- Reserving Group
- Solvency II Steering Group
- Delegated Underwriting and Product Oversight Group
- Exposure Management Group
- Internal Model Group

The Syndicate is authorised and regulated by the PRA and by Lloyd's and is regulated by the Financial Conduct Authority ("FCA"). The Syndicate works closely with these regulatory bodies to ensure it is compliant with all legal and regulatory requirements.

The Syndicate is committed to ensuring that its strategy, leadership, decision making and control framework are all central to the reasonable expectations of, and reflect the fair treatment of, its policyholders. The Syndicate continues to reassess all aspects of its commitment to its customers to ensure that all these values are maintained.

Strategic report - continued

Principal risks and uncertainties

The HUA Board has overall responsibility and accountability for risk management. The Syndicate's appetite for accepting and managing risk is defined by the Board. The Board has delegated to the Risk Committee the responsibility for identifying and assessing all material risks and reviewing the Syndicate's actual risk exposure against stated risk appetite on a regular basis.

The Chief Risk Officer has responsibility for ensuring an effective risk management process is in place and is assisted by the Risk Management function. The Syndicate has developed a risk and control framework which is built on an Enterprise Risk Management ("ERM") model with each business unit responsible and accountable for all aspects of risk management within that area.

The risk management framework includes the processes for identifying risks (including those emerging), an assessment of those risks, and the setting of tolerances for risks, as well as the modelling, monitoring and mitigating of risks. The scope of risks considered includes all internal and external risks that affect the Syndicate whether quantifiable or not.

Set out below are the principal risks and uncertainties to which the Syndicate is exposed. Further information on how the Syndicate manages risk is disclosed in Note 3 to these financial statements.

Strategic risk

Strategic risk is the potential impact on earnings or capital from an incorrect strategy being set, improper business decisions, failure to execute plans or strategic ambitions, lack of responsiveness to industry changes and ill-disciplined growth in a soft market. Any event which would have an adverse impact to the Syndicate reputation would also rank as a strategic risk. Annual business plans are agreed by senior management and tracked against actual performance throughout the year.

Insurance risk

Insurance risk is the risk associated directly with the Syndicate's underwriting activities. This would include the risk associated with inaccurate or inadequate pricing of insurance policies, inappropriate or poorly controlled underwriting guidelines and authority limits, inadequate or inaccurate loss reserving, and unexpectedly high frequency or severity of claims experience.

To mitigate these risks the Syndicate has in place controls and governance processes designed to closely monitor its underwriting activities. These include, but are not limited to, the operation of the Underwriting Committee, Reserving Group and Exposure Management Group, the issuance of underwriting authority limits and guidelines, the extensive use of technical pricing models, and regular underwriting audits.

Financial risk – Credit, Market and Liquidity

Financial risk includes the risk associated with investment activities, credit, liquidity and foreign currency exchange. This includes bond default risk (the risk that an issuer of a bond may be unable to make timely principal and interest payments) and reinsurer default risk (the risk that the Syndicate's reinsurers would be unable or unwilling to pay their share of reinsurer liabilities). Either may result in significant financial loss to the Syndicate.

Investment risk includes the impact of market volatility on asset values associated with interest rate volatility. The Syndicate manages investment risk through its Investment Group. The Group is responsible for establishing and maintaining an investment policy in line with the risk appetite of the Syndicate. In addition, the Group is responsible for the management of all investment asset risks, the selection of its investment managers and reviewing investment performance.

Operational risk

Operational risk arises from the risk of losses due to inadequate or failed internal processes, people, systems, service providers or from external events. Risks include those from IT related activities (including cyber), legal and regulatory, financial reporting and financial crime as well as those from operations, outsourcing and change.

The Syndicate has in place appropriate business processes (including business continuity plans) and relevant internal controls to substantially mitigate operational risk.

Strategic report - continued

Emerging risks

The Syndicate has processes in place to monitor and manage new and emerging risks associated both directly with its insurance activities and with the wider business and economic environment. The Syndicate also monitors potential emerging risks resulting from changes in the regulatory environment. Where appropriate, the Syndicate proactively undertakes risk management activities to mitigate emerging risks.

Going concern

The Syndicate has strong risk management disciplines across its operations. In particular, the potential impacts of external conditions are continually assessed and mitigating actions are taken where appropriate. The Syndicate operates with a broad range of brokers, customers and other business contacts in different product lines and geographic areas. As a consequence, the HUA directors believe that the Syndicate is well placed to manage its business risks successfully.

After making all relevant enquiries, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in Note 1 to the financial statements.

Approval

Approved by the Board of directors and signed on its behalf by:



D J Brosnan
Director

20 Fenchurch Street,
London EC3M 3BY

13 March 2017

Report of the directors of the managing agent

The directors of HUA, the managing agent of Syndicate 382, present their report and financial statements for the year ended 31 December 2016.

Directors

The directors who have held office in HUA since 1 January 2016 are as follows:

Executive directors

P J Gage
C A Kearney
D J Stevens
D J Brosnan

Non-executive directors

J M Anderson
A M D'Hulster
T F Motamed
G J Starling
T J Szerlong
H I Thomas
R Thomson (appointed 1 December 2016)

Statement of managing agent's responsibilities

HUA is responsible for preparing the Syndicate annual financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require HUA to prepare Syndicate annual financial statements as at 31 December each year to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit and loss for that year. In preparing the Syndicate annual financial statements, HUA is required to:

- select suitable accounting policies, which are applied consistently, subject to changes arising on the adoption of new accounting standards in the year;
- 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; and
- prepare the annual financial statements on the going concern basis unless it is inappropriate to presume that the Syndicate will continue in business.

The directors are responsible for keeping adequate accounting records which: disclose with reasonable accuracy at any time the financial position of the Syndicate; and enable it to ensure that the Syndicate annual financial statements comply with the 2008 Regulations. They are also responsible for safeguarding the assets of the Syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Results

In 2016 the Syndicate reported a loss of £6.8 million (2015: loss of £9.9 million).

Report of the directors of the managing agent - continued

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

1. so far as the director is aware, there is no relevant audit information of which the Syndicate's auditor is unaware; and
2. the director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Syndicate's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditor of the Syndicate.

Information included in strategic report

In accordance with section 414C(11) of the Companies Act, the Syndicate has chosen to set out the following information in the strategic report which would otherwise be required to be contained in the directors' report:

- information on the financial risk management objectives and policies;
- indication of the exposures to relevant key risks; and
- indication of likely future developments in the business of the Syndicate.

Approval

Approved by the Board of directors and signed on its behalf by:



D J Brosnan

Director

20 Fenchurch Street,
London EC3M 3BY

13 March 2017

Independent Auditor's report to the member of Syndicate 382

We have audited the syndicate annual financial statements for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Changes in Member Balances, the Cash Flow Statement, and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102/FRS 103 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate'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 syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of managing agent and auditor

As explained more fully in the Statement of Managing Agent's Responsibilities, the managing agent is responsible for the preparation of syndicate annual financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual 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 annual financial statements sufficient to give reasonable assurance that the annual 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 syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the annual financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2016 and of its loss 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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matters prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulation 2008

In our opinion the information given in the Managing Agent's Report and the Strategic Report for the financial year in which the annual financial statements are prepared is consistent with the annual financial statements.

Independent Auditor's report to the member of Syndicate 382 -

continued

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you if, in our opinion:

- the managing agent in respect of the Syndicate has not kept adequate accounting records; or
- the Syndicate financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.



Colin Rawlings FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP

Chartered Accountants and Statutory Auditor
London, United Kingdom

13 March 2017

Profit and loss account - Technical account - General business

	Notes	2016 £'000	2015 £'000
Gross premiums written	4	285,665	267,938
Outward reinsurance premiums		(37,585)	(49,079)
Premiums written, net of reinsurance		248,080	218,859
Change in provision for unearned premiums			
– gross amount		(15,371)	(6,597)
– reinsurers' share		(1,494)	(5,174)
Earned premiums, net of reinsurance		231,215	207,088
Claims paid			
– gross amount		157,829	138,789
– reinsurers' share		(28,599)	(37,494)
Net claims paid		129,230	101,295
Change in the provision for claims:			
– gross amount		48,700	7,079
– reinsurers' share		(11,712)	22,095
Claims incurred, net of reinsurance		166,218	130,469
Net operating expenses	6	90,874	89,803
Balance on the technical account for general business		(25,877)	(13,184)

The Notes 1 to 17 form an integral part of these financial statements.

Profit and loss account - Non-technical account

	Notes	2016 £'000	2015 £'000
Balance on the technical account for general business		(25,877)	(13,184)
Income from investments		3,580	2,483
Gains on the realisation of investments		228	87
Losses on the realisation of investments		(791)	(433)
Unrealised gains on investments		171	276
Unrealised losses on investments		(865)	(944)
Investment expenses and charges		(117)	(21)
Foreign exchange differences		16,823	1,826
Other expenses		(17)	-
Other income		100	-
Loss for the financial year		(6,765)	(9,910)

All the amounts above are in respect of continuing operations.

There are no recognised gains and losses in the year other than those dealt with in the technical and non-technical accounts and therefore a statement of total recognised gains or losses has not been prepared.

The Notes 1 to 17 form an integral part of these financial statements.

Statement of changes in member balances

	Notes	2016 £'000	2015 £'000
Balance at start of year		(14,628)	8,927
Total comprehensive income for the year			
Loss for the financial year		(6,765)	(9,910)
		(21,393)	(983)
Transactions with member, recorded directly in member balances:			
- Receipt of closed year losses/(distribution of closed year profits)		3,775	(13,686)
- Other movements		(9)	41
Balance at end of year		(17,627)	(14,628)

The Notes 1 to 17 form an integral part of these financial statements.

Balance sheet

Assets	Notes	2016 £'000	2015 £'000
Investments - other financial investments	9	233,234	163,462
Reinsurers' share of provision for unearned premiums	13	24,678	23,792
Reinsurers' share of claims outstanding	13	82,423	59,922
Reinsurers' share of technical provisions		107,101	83,714
Debtors arising out of direct insurance operations	10	107,032	95,093
Debtors arising out of reinsurance operations		6,492	7,365
Other debtors	11	381	2,902
Debtors – amounts falling due within one year		113,905	105,360
Debtors arising out of direct insurance operations	10	135	544
Debtors arising out of reinsurance operations		69	-
Debtors – amounts falling due after one year		204	544
Cash at bank and in hand		26,874	23,949
Overseas deposits	12	25,463	17,845
Other assets		52,337	41,794
Accrued interest		1,161	737
Deferred acquisition costs		38,723	32,487
Prepayments and other accrued income		667	1,197
Prepayments and accrued income		40,551	34,421
Total assets		547,332	429,295

The Notes 1 to 17 form an integral part of these financial statements.

Balance sheet - continued

Liabilities	Notes	2016 £'000	2015 £'000
Members balances		(17,627)	(14,628)
Provision for unearned premiums	13	173,871	146,722
Claims outstanding	13	343,077	249,680
Technical provisions		516,948	396,402
Creditors arising out of direct insurance operations		942	374
Creditors arising out of reinsurance operations		39,788	41,256
Other creditors	14	1,231	555
Creditors – amounts falling due within one year		41,961	42,185
Creditors arising out of reinsurance operations		-	272
Creditors – amounts falling after one year		-	272
Reinsurers' share of deferred acquisition costs		4,982	5,040
Accruals and deferred income		1,068	24
Other payables		6,050	5,064
Total liabilities		547,332	429,295

The Notes 1 to 17 form an integral part of these financial statements.

These financial statements were approved by the Board of directors of HUA on 13 March 2017 and signed on its behalf by:



D J Stevens
Director

Statement of cash flows

Reconciliation of operating profit to net cash outflows from operating activities

	2016 £'000	2015 £'000
Operating activities		
Loss for the financial year	(6,765)	(9,910)
Adjustments for:		
Financial income	(2,206)	(1,448)
Change in fair value of financial investments	116	(5,571)
Effect of exchange rate changes on financial investments	(17,979)	(5,725)
Change in deferred acquisition costs	(6,294)	(555)
Change in reinsurance assets	(23,387)	23,723
Change in insurance liabilities	120,546	21,675
Change in other assets	(15,717)	10,048
Change in other liabilities	548	(6,041)
Net cash flows from operating activities	48,862	26,196
Investing activities		
Purchase of financial assets	(167,293)	(63,514)
Proceeds from sale of financial assets	108,629	55,218
Interest and dividends received	3,509	2,483
Net cash flows from investing activities	(55,155)	(5,813)
Net transfers to/(from) the member in respect of underwriting participations	3,766	(13,645)
Net (decrease)/increase in cash and cash equivalents	(2,527)	6,738
Cash and cash equivalents at 1 January	23,949	15,506
Effect of foreign exchange rate fluctuations on cash and cash equivalents	5,452	1,705
Cash and cash equivalents at 31 December	26,874	23,949

Notes to the financial statements

1. Accounting policies

Basis of accounting

The financial statements are prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulation 2008 and applicable Accounting Standards in the United Kingdom, including FRS 102 and FRS 103. The financial statements are prepared under the historical cost accounting rules as modified by the revaluation of investments.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of preparation

The Syndicate's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business operations paragraph, which forms part of the Strategic report.

The directors have a reasonable expectation that the Syndicate and HUA have adequate resources to continue in operational existence for the foreseeable future. Therefore they continue to adopt the going concern basis of accounting in preparing the financial statements.

Foreign currencies

Foreign currency transactions are converted to the presentational and functional currency of the Syndicate (Pound sterling) using the exchange rates prevailing at the date of the transactions. Assets and liabilities denominated in foreign currency are revalued to functional currency at year end exchange rates and the resultant differences are recognised as gains and losses in the technical account.

Basis of accounting for underwriting activities

Contracts are classified at inception, for accounting purposes, as either insurance contracts or investment contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Investment contracts can be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to pay benefits that were significantly greater than the premium received. Such contracts may also transfer financial risk. Investment contracts are contracts that carry financial risk with no significant insurance risk. The Syndicate has not issued any investments contracts in the current or prior year.

Premiums

Premiums written comprise premiums on contracts inception during the financial year as well as adjustments made to premiums written in prior accounting periods. Premiums written on a Losses Occurring During ("LOD") basis are recognised in the month of inception of the policy. Premiums written on a Risk Attaching During ("RAD") basis are spread between the inception and expiry date of the policy. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. In addition, premiums are shown net of premium discounts and certain other deductions. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Outwards reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct inwards business.

The amount due but not paid is included in insurance and reinsurance debtors in the balance sheet.

Notes to the financial statements - continued

1. Accounting policies - continued

Unearned premiums

Premiums written are recognised as earned according to the risk profile of the policy. Unearned premiums represent the proportion of premiums written in the year that relate to the unexpired period of policies in force at the balance sheet date, calculated on the basis of established earnings patterns or time apportionment as appropriate.

Claims incurred

Claims incurred comprise all claim payments and internal and external settlement expense payments made in the financial year and the movement in the provisions for claims outstanding and settlement expenses, including claims incurred but not reported ("IBNR"), net of salvage and subrogation recoveries.

Outward reinsurance recoveries are accounted for in the same accounting period as the claims for the related direct or inward reinsurance business being reinsured.

Claims outstanding and related reinsurance recoveries

Provision is made for claims outstanding and settlement expenses incurred at the balance sheet date including an estimate for the cost of claims IBNR at that date. Included in the provision is an estimate of the internal and external costs of handling the claims outstanding. Estimated salvage and other recoveries are deducted from claims outstanding, if material.

The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Syndicate, where there is more available information about the claim event. In calculating IBNR, the Syndicate uses a variety of estimation techniques. These are largely based on actuarial analysis of historical experience, which assumes the development pattern of the current claims will be consistent with past experience. Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics, or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses, including catastrophes; and
- movements in industry benchmarks.

Large claims are generally assessed separately by each business class, being measured on a case by case basis, to allow for the possible distortive impact of the development and incidence of the large claims.

When calculating the provision for claims outstanding, the Syndicate selects an estimation technique taking into account the individual characteristics of each business class.

Reinsurance recoveries are based upon the provision for claims outstanding, having due regard to collectability. Reinsurance recoveries in respect of estimated IBNR are assumed to be consistent with historical patterns of such recoveries, adjusted to reflect any changes in the nature and extent to the Syndicate's reinsurance programme over time. The recoverability of reinsurance recoveries is assessed having regard to market data on the financial strength of each reinsurer.

The Syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures and the directors therefore consider that its provisions for claims outstanding and related reinsurance recoveries are fairly stated. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove different from the original liability established. Any adjustment made to amounts for claims provisions in respect of prior years are included in the Technical account within the financial statements of the period when such adjustment is made.

Notes to the financial statements - continued

1. Accounting policies - continued

Liability adequacy test

At each reporting date an assessment is made to determine whether recognised insurance liabilities are adequate. If that assessment shows that the carrying amount of insurance liabilities (less related acquisition costs) is inadequate in the light of estimated future cash flows, the entire deficiency is recognised in the profit and loss account as an impairment of any associated deferred acquisition costs and, where these are fully depleted, via the provision for unexpired risks. The adequacy of the provision for unexpired risks is calculated separately by reference to classes of business that are managed together, after taking into account relevant investment return.

Deferred acquisition costs

Acquisition costs comprise the direct expenses of concluding insurance contracts written during the financial year. Acquisition costs are accrued over a period equivalent to that over which the underlying business is underwritten, and are charged to the accounting periods in which the related premiums are earned. Deferred acquisition costs represent the proportion of acquisition costs incurred in respect of unearned premiums at the balance sheet date. The Syndicate defers only those acquisition costs which are directly related to the conclusion of insurance contracts as calculated separately for each class of business.

Investment return

All investment return is recognised in the non-technical account.

Investment income comprises interest and dividends and realised gains and losses on investments. Interest is recognised on an accrual basis and dividends are included on an ex-dividend basis.

Realised gains or losses represent the difference between the net sales proceeds and purchase price.

Interest payable and expenses incurred in the management of investments are accounted for on an accrual basis.

Unrealised gains or losses represent the difference between the valuation of investments at the balance sheet date and their purchase price. The movement in unrealised gains and losses therefore includes the reversal of previously recognised unrealised gains and losses on investments disposed of in the current year.

Tax

Under Schedule 19 of the Finance Act 1993, managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently 20%) deducted from Syndicate investment income is recoverable by managing agents and consequently the distribution made to the member gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

Investments

The Syndicate designates financial assets upon initial recognition as "fair value through profit and loss" on the basis that the Syndicate manages and evaluates the performance of its investment portfolio on a fair value basis in accordance with its investment strategy.

These financial assets are initially recognised at fair value with any transaction costs being expensed through the profit and loss account. For quoted investments where there is an active market, the fair value is the quoted bid price at the balance sheet date. For quoted investments where there is no active market, the fair value is determined by reference to prices for similar assets in active markets.

Realised gains and losses and unrealised gains and losses arising from changes in the fair value of financial assets at fair value through profit and loss are included in the profit and loss account in the period in which they arise.

Notes to the financial statements - continued

1. Accounting policies - continued

Cash and cash equivalents

Cash and cash equivalents represent cash balances, money market deposits with banks and other short-term highly liquid investments purchased within three months of maturity.

Insurance and other debtors

Insurance and other receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate on balances beyond one year, except for short-term receivables when the recognition of interest would be immaterial.

Other financial liabilities

Other financial liabilities, including payables arising from insurance contracts, investment contracts, creditors and deposits received from reinsurers, are initially measured at cost, which is equal to fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

2. Critical accounting estimates and judgements

The Syndicate makes estimates and assumptions that affect the reported amounts of assets and liabilities during the financial year. Estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Estimates and judgements in applying accounting policies are continually evaluated for appropriateness.

Gross premiums written

Gross premiums written include estimates for pipeline premiums, together with adjustments to premiums written in prior accounting periods.

Outstanding claims provisions and related reinsurance recoveries

The Syndicate's estimates for reported and unreported losses and the resulting provisions and related reinsurance recoverables are regularly monitored, and updated based on the latest available information. Adjustments resulting from this review are reflected in the profit and loss account. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. Estimation of claims provisions is a complex process, however, and significant uncertainty exists as to the ultimate settlement of these liabilities.

The most critical gross estimate included within the Syndicate's financial position is the estimate for losses incurred but not reported. The total estimate as at 31 December 2016 is £127.6 million (2015: £91.5 million) and is included within technical provisions in the balance sheet.

Estimation of the fair value of assets and liabilities

In estimating the fair value of fixed maturity securities, fair values are generally based upon quoted market prices. Where market prices are not readily available, fair values are estimated using values obtained from quoted market prices of comparable securities.

For disclosure purposes, fair value measurements are classified as Level 1, 2 or 3 based on the degree to which fair value is observable.

Notes to the financial statements - continued

3. Risk management

The Syndicate operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The narrative below describes how the principal risks of the Syndicate are managed.

Risk definition

Risk exists as a consequence of uncertainty and is present in all activities regardless of their size or complexity. Risk is the uncertainty associated with the delivery of the Syndicate's objectives, resulting in either a positive or negative outcome.

The Syndicate faces numerous risks to its business from both internal and external sources. These risks have the potential to impact the achievement of the Syndicate's strategic and operational objectives. Successful risk management enables the Board to understand and manage the uncertainty, and associated risk and opportunity, to which the Syndicate is exposed.

Risk statement

The Syndicate considers risk management to be fundamental to good management practice and a significant aspect of corporate governance. Effective management of risk provides an essential contribution towards the achievement of the Syndicate's strategic and operational objectives and goals.

The Board of HUA owns risk management within the Syndicate, and communicates its risk strategy through a risk appetite statement. The Board is also responsible for ensuring that the Syndicate's Internal Model is embedded in the operation of its business and that the model is used to improve both the understanding of risk and the quality of the decision making at all levels across the business.

Risk management is an integral part of the Syndicate's decision-making and routine management, and is incorporated within the strategic and operational planning processes at all levels across the business. Employees are expected to manage risk as defined through their roles. This ensures that an assessment of risk remains central to decision-making.

The Risk Management Function maintains a governance framework and a risk register to support the assessment of risk within the business. This includes investigation and challenge around issues and events which may affect the Syndicate's understanding or management of risk.

Risk assessments are conducted on new ventures and activities, including projects, processes, systems and commercial activities to ensure that these are aligned with the Syndicate's objectives and goals. Any risks or opportunities arising from these assessments are identified, analysed and reported to the appropriate management level.

Risk Appetites

The Syndicate's risk appetite statement reflects the Syndicate's risk carrying capacity, business strategy and financial goals. It describes the level and types of risk the Syndicate is prepared to bear.

Syndicate level risk appetite is set by the Board at a level that is most appropriate in the context of the Syndicate's strategy and capital constraints. The risk appetite statement sets out the types and overall amount of risk which is acceptable to achieve the business strategy. Risk appetite is an expression of the need both to limit exposure to unacceptable risks and to assume risks for which the Syndicate is well positioned to make returns from managing risk effectively.

The strategic appetite statements provide high level guidance under the following categories:

- Capital;
- Liquidity;
- Earnings; and
- Franchise.

Detailed appetites provide further guidance on the levels of risk acceptable in the various risk categories. The detailed appetites follow the risk register categorisation and hence provide the limits (for risks which can be controlled) and escalation points (for risks which can only be monitored) for each risk type.

Notes to the financial statements - continued

3. Risk management - continued

Own Risk and Solvency Assessment ("ORSA")

The ORSA is a process for the Syndicate to identify and assess all material risks that may impact the Syndicate's ability to meet, over the full business planning period, its strategic objectives and obligations and to ensure sufficient capital is maintained, on a continuing basis, to meet these risks.

Assessments are forward-looking, taking into account the business plan, long term plan and projections. The assessment is performed regularly and without any delay following any significant change in the risk profile, with the outcome of the assessment informing strategic decisions.

There are seven distinct categories of risk segmented into four high level categories: Insurance risks (Underwriting and Reserving), Finance risks (Credit, Market and Liquidity), Operational risks and Strategic risks. The key mitigation activities against these risk categories are described below

The Syndicate operates an extensive risk management system to manage and monitor its risks within the overall governance framework set by the Board. The Notes below describe how the principal risks of the Syndicate are managed.

Business review of risk and the 'Three lines of defence' governance model

The Syndicate deploys the three lines of defence governance model. In the first line, risk is managed and monitored by those that have a responsibility for risk taking or decision making. Second line monitoring occurs through the Risk and Compliance functions and the Risk Committee, and is evidenced through risk reporting. Third line monitoring is through Internal Audit, supported by external audit and independent experts.

The primary method for identifying, assessing and managing risk in the Syndicate is through the first line of defence review of risk taking and/or decision making activity. Employees are expected to manage risk as defined by their role. A formal risk review takes place at least quarterly where the risk and control performance and relevance are considered. Indicators and appetites may be refreshed more regularly and will prompt ad-hoc reviews where they fall outside agreed tolerances.

The risk register is a live tool that is central to the management of risk at the Syndicate. The Risk Management Function works with risk owners to agree the material risks to which the Syndicate is exposed, as well as the relevant sub-risks, controls and key risk indicators against each risk. The suite of risks on the register makes up the universe of risks within the Syndicate.

Emerging and developing risk

Emerging risks are defined as conditions, situations or trends that could impact the financial strength, competitive position or reputation of the Company, within a defined future timescale, and for which probability of occurrence and extent of impact are in the process of being understood and quantified.

To differentiate emerging risks from material risks that are already tracked, emerging risks are those where:

- The likelihood and impact may not be fully quantifiable;
- The business is monitoring the risk, but is not able to actively manage it.

Emerging and developing risks are related to potential changes in the environment, or in the understanding of the environment, which could positively or negatively impact the Syndicate's ability to meet its short or longer term plans.

The purpose of actively researching and discussing developing risk as a business is to be able to identify and benefit from new opportunities ahead of the Syndicate's peers, and to avoid or mitigate potential threats to the Syndicate's business performance.

Notes to the financial statements - continued

3. Risk management - continued

Risk quantification and modelling

The Internal Model is the tool used to calculate the Syndicate's Solvency Capital Requirement. The Syndicate's Internal Model provides a tool to quantitatively assess the material risks to which the Syndicate is exposed. The Internal Model encompasses the processes and methodologies in place for quantifying the risks faced by the Syndicate as well as the data, assumptions, applied expert judgements, model outputs and the systems of governance and independent validation. All model changes must go through a formal approval process.

Capital management

The capital position is managed to take account of the Syndicate's long term needs and particularly of the underwriting cycle, since the variability of the Syndicate's exposures at different points in the cycle is critical. The Board's strategy is to ensure capital adequacy in accordance with commercial and regulatory requirements.

The Syndicate's corporate member is required to hold capital at Lloyd's which is held in trust in FAL. The amount of capital required to be provided as FAL for the 2016 Year of Account was determined by the Syndicate and Lloyd's on a Solvency II basis, using an Internal Model. This is a risk based capital assessment based upon the Syndicate's specific circumstances.

The Syndicate's regulatory capital required for the 2017 year of account is £210.9 million (2016 year of account: £204.9 million). This capital requirement was increased by £11.5 million by way of solvency credits (2015: reduced by £2.6 million of solvency credits). This requirement is fulfilled by a mixture of cash and investments held by HUB and its subsidiaries, and by £60.5 million (2015: £48.4 million) of investments held by CICL to support the Syndicate's capital requirement.

Insurance risk

Insurance risk, in the most general sense, is the assumption of risk by an insurer from the individuals or organisations who are directly subject to the risk concerned.

There are inherent uncertainties in assuming insurance risk, some of which relate to the scope of coverage and the understanding of that scope by the insurer. The principal uncertainty, however, is associated with frequency and severity of claims and with the potential for these to be greater than expected. Insurance events must be subject to fortuity and are therefore, by their very nature, random as to number and size.

Insurers put in place strategies to manage insurance uncertainties and the framework utilised by the Syndicate is outlined below.

Underwriting risk

Underwriting risk represents risk associated with the continuing acceptance of insurance policies by the Syndicate. This relates to the uncertainty as to whether premiums received will be sufficient to cover future incurred losses, including expenses as well as risks associated with potential volatility in claims experience.

Processes used to manage underwriting risk include the setting of underwriting and pricing standards and limits on risk-taking. The Syndicate also monitors and manages its natural catastrophe exposures and uses catastrophe modelling software in order to assess its risk. Where necessary, reinsurance is used to mitigate and transfer risk falling outside risk appetite. Additionally the Syndicate employs a business model that achieves diversification through the spread of business across territories and sectors. The Underwriting Committee provides governance over managing underwriting risk.

Notes to the financial statements - continued

3. Risk management - continued

Control of aggregating exposures

Measurement and control of exposures are the means by which volatility within the portfolio is constrained. It goes to the heart of the business' appetite for risk, since exposures are contained at a level that represents the extent to which the Syndicate is prepared to bear a net loss. Within an insurance business, aggregations of risk may arise from a single insurance contract or through a number of related contracts. Whilst some level of claims activity from these aggregations is expected on a regular basis, certain events, or a series of events, may occur that stress the business financially. Examples of such events are hurricanes and earthquakes. The extent of the impact may also be very dependent on the size and location of the insured events.

Control of aggregating exposures in vulnerable locations is clearly vital, and is the key to maximising the potential for good underwriting profit in loss free periods without, on the downside, over-exposing capital to the impact of large and costly events. Factors which would impact the assumption of risk in these circumstances include an appropriate pricing of risk, a spread of risk across geographical territories and the availability, subject to cost, of a suitable reinsurance programme. The Syndicate determines the maximum total exposure levels to a range of events that it is prepared to accept. Beyond this level, no further exposure may be assumed. At any point in time, the current exposure position for the underwriting portfolio is available to underwriters to enable them to assess the impact of individual risk exposures on the whole account.

The Syndicate uses a number of modelling tools for this purpose, and their main objective is to simulate catastrophe losses so as to measure the effectiveness of the reinsurance programme and to confirm that the net exposure to which the Syndicate is exposed has not exceeded the predetermined limit. A number of stress and scenario tests are also run during the year to examine the exposure to specific types of events.

Management of reinsurance risk

Treaty reinsurance is purchased to proactively manage the volatility inherent in the business. The Syndicate seeks to balance cost versus protection through outward reinsurance treaty protections.

In addition to protecting the business against catastrophe exposure, reinsurance is also purchased to lay off risks that have characteristics that the Syndicate does not wish to retain and also to control net exposures on single risks or aggregations of risks. Both proportional and non-proportional reinsurances are employed.

Facultative reinsurance may also be used in certain predetermined circumstances for individual large lines. The focus on adequacy of pricing generally means that the underwriting team is comfortable to underwrite most classes of business without significant levels of facultative reinsurance.

The erosion and ongoing adequacy of the reinsurance programme as well as the reinsurance credit risk are also actively monitored.

Notes to the financial statements - continued

3. Risk management - continued

Reserve risk

Reserve risk is associated with liabilities the Syndicate has from insurance policies issued in the past. This is the risk that claims reserves and related claims handling reserves will be materially inadequate relative to the ultimate cost of settlement.

The Syndicate adopts a prudent philosophy and approach in quantifying the Syndicate's insurance liabilities. Under this philosophy the Syndicate seeks to provide an appropriate level of confidence in the level of insurance liabilities, through estimating individual case reserves and the ultimate estimation of the ultimate cost of claims.

The Claims department is responsible for the setting of individual case reserves. The primary source of information for claims is through the London Market Bureau (Xchanging). Information is also received directly from customers and brokers, which is used to complement the official advice of claims through the Bureau.

Due to the nature of insurance business there will be a time delay between the occurrence of an event, the reporting of that event to the insurer, assessing the quantum of the loss, and final settlement. A provision for IBNR is established to provide for the future notification or development of claims which have already occurred at each statement of financial position date. The Syndicate uses a number of methodologies in estimating the provision for IBNR claims, which are highly dependent on the assumptions used. These methodologies and assumptions will vary by class of business, underwriting year and method of acceptance.

Critical to the reserve setting process is the assumption that the past claims development experience can be used to predict the future claims development and hence the ultimate cost of claims. Triangulation statistics that show the historical development of premiums and claims for each class of business and underwriting year are used to assist in the process of determining reserves. Numerous other factors and assumptions are applied to the claims historical progression data to assist in setting these estimates. The factors include changes over time to the business mix and method of acceptance within each class of business, rating and conditions, legislation and court awards, claims inflation and economic conditions. By its nature, the process involves a significant amount of judgement, although every effort is made to ensure that the process and resultant reserves are set on a consistent basis and will be sufficient to meet the cost of claims when they are finally settled.

There is a significant amount of uncertainty in the reserve established, which may be more or less than adequate. The level of uncertainty varies between classes of business and generally increases for longer tail classes of business. Any change in the estimate of a reserve, or a settlement at a value other than the reserve provided, is recognised in the reporting period in which the change is identified. The following table quantifies the impact on the Syndicate's profit and net assets of a 1% variation in the outstanding claims reserve and combined ratio, which may be the result of one or several changes in the insurance risk variables.

The following table quantifies the impact on the Syndicate's profit and net assets of a 1% variation in the outstanding claims reserve and combined ratio, which may be the result of one or several changes in the insurance risk variables.

	Gross of reinsurance 2016 £'000	Net of reinsurance 2016 £'000	Gross of reinsurance 2015 £'000	Net of reinsurance 2015 £'000
Impact of a 1% variance in:				
Claims liability	3,431	2,607	2,497	1,898
Combined ratio	2,703	2,312	2,613	2,071

Notes to the financial statements - continued

3. Risk management - continued

Financial risk

Financial risks can be broken down into the following categories:

Credit risk

Credit risk is the risk of loss if a counterparty fails to meet its contractual obligations resulting in a financial loss to the Syndicate. The Syndicate is exposed to credit risk primarily through its investment and insurance activities.

The exposure to credit risk from holdings of debt and other fixed income securities, is managed by adherence to the Syndicate's investment guidelines which detail minimum issuer credit quality, duration limits, and the maximum value of individual holdings. The average Standard & Poor's credit rating of the Syndicate's debt and other fixed income securities remained high throughout the year, and at 31 December 2016 was "A+" (2015: "A+").

The Syndicate is exposed to credit risk as a result of its regular insurance and reinsurance activity. The areas of key exposure are the reinsurers' share of claims outstanding and debtors arising out of direct and reinsurance operations from both policyholders and intermediaries. Ceded reinsurance is used to mitigate risks arising from inwards business. Ceded reinsurance does not discharge the Syndicate's liability as primary insurer. If a ceded reinsurer fails to pay a claim, the Syndicate remains liable for the payment to the policyholder. Reinsurance coverages are normally placed with reinsurers who are included on the approved reinsurance security listing used by the Syndicate. Generally, these reinsurers will have a Standard & Poor's credit rating of "A" or better. With regard to direct insurance and reinsurance receivables, the Syndicate operates processes to review broker security and to monitor arrangements with managing general agents. Receivables consist of payments of premium due from a large number of policyholders, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Syndicate does not have a significant credit risk exposure to any single counterparty or any group of counterparties. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit ratings agencies.

The assets bearing credit risk are summarised below:

	2016 £'000	2015 £'000
Other financial investments	233,234	163,462
Reinsurers' share of claims outstanding	82,423	59,922
Debtors arising out of direct insurance operations	107,167	95,637
Debtors arising out of reinsurance operations	6,561	7,365
Cash at bank and in hand	26,874	23,949
Overseas deposits	25,463	17,845
Other debtors	381	2,902
Total assets bearing credit risk	482,103	371,082

The concentration of credit risk is substantially unchanged compared to the prior year.

The carrying amount of the above assets at the balance sheet date represents the maximum credit risk exposure. At year end, the Syndicate does not hold any investments in wrapped debt or other such fixed income securities.

Notes to the financial statements - continued

3. Risk management - continued

Credit risk - continued

Other financial investments are designated as fair value through profit or loss at inception, and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. The credit rating for other financial investments is detailed below. The ratings are derived from Standard & Poor's.

	2016 £'000	2015 £'000
AAA	19,227	18,653
AA	81,386	71,901
A	94,733	55,450
BBB	37,087	17,458
Below BBB or not rated	801	-
Total other financial investments bearing credit risk	233,234	163,462

Other financial investments and cash at bank are neither past due nor impaired.

The Standard & Poor's or equivalent credit rating for reinsurers' share of claims outstanding and debtors arising out of reinsurance operations is detailed below:

	2016 £'000	2015 £'000
AAA	-	-
AA	16,576	11,951
A	66,450	50,136
BBB	118	26
Below BBB or not rated	5,840	5,174
Total reinsurers' share of claims outstanding and debtors arising out of reinsurance operations bearing credit risk	88,984	67,287

Debtors arising out of direct and reinsurance operations includes a £0.2 million (2015: £0.7 million) provision for impairment.

Notes to the financial statements - continued

3. Risk management - continued

Liquidity risk

Liquidity risk is the risk that cash may not be available, or that assets cannot be liquidated at a reasonable price, to pay obligations when they fall due. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising through insurance and reinsurance contracts. In respect of business underwritten in certain international regions there is a requirement to collateralise regulated trust funds in respect of gross insurance liabilities. This puts an additional burden on the Syndicate's liquidity.

The table below summarises the maturity profile of the Syndicate's financial and insurance liabilities based on an analysis by estimated timing of the amounts recognised in the balance sheet for insurance liabilities, and based on remaining undiscounted contractual obligations for all other liabilities.

	Within 1 year 2016 £'000	1-2 years 2016 £'000	3-5 years 2016 £'000	Over 5 years 2016 £'000	Total 2016 £'000
Claims outstanding	159,978	141,402	34,812	6,885	343,077
Creditors	41,961	-	-	-	41,961
Other payables	6,050	-	-	-	6,050
As at 31 December 2016	207,989	141,402	34,812	6,885	391,088

	Within 1 year 2015 £'000	1-2 years 2015 £'000	3-5 years 2015 £'000	over 5 years 2015 £'000	Total 2015 £'000
Claims outstanding	116,529	104,996	22,433	5,722	249,680
Creditors	42,185	272	-	-	42,457
Other payables	5,064	-	-	-	5,064
As at 31 December 2015	163,778	105,268	22,433	5,722	297,201

Notes to the financial statements - continued

3. Risk management - continued

Liquidity risk – continued

The table below summarises the maturity profile of the Syndicate's financial and insurance assets where the maturity profile is an analysis by estimated timing of the amounts recognised in the balance sheet.

	Within 1 year 2016 £'000	1-2 years 2016 £'000	3-5 years 2016 £'000	Over 5 years 2016 £'000	Total 2016 £'000
Other financial investments	71,437	47,926	103,812	10,059	233,234
Reinsurers' share of claims outstanding	38,435	33,971	8,363	1,654	82,423
Debtors	113,905	204	-	-	114,109
Cash at bank and in hand and overseas deposits	52,337	-	-	-	52,337
Prepayments and accrued income	40,551	-	-	-	40,551
As at 31 December 2016	316,665	82,101	112,175	11,713	522,654
	Within 1 year 2015 £'000	1-2 years 2015 £'000	3-5 years 2015 £'000	over 5 years 2015 £'000	Total 2015 £'000
Other financial investments	75,273	29,960	55,641	2,588	163,462
Reinsurers' share of claims outstanding	27,966	25,199	5,384	1,373	59,922
Debtors	105,360	544	-	-	105,904
Cash at bank and in hand and overseas deposits	41,794	-	-	-	41,794
Prepayments and accrued income	34,421	-	-	-	34,421
As at 31 December 2015	284,814	55,703	61,025	3,961	405,503

The Board manages this risk by structuring its working capital to ensure that there are available cash resources or sufficiently liquid investments to meet expected cash flow requirements. The Syndicate's investment guidelines are structured to ensure that Syndicate investments can be liquidated at short notice to meet higher levels of demand in exceptional circumstances.

The Syndicate has no significant concentrations of liabilities that would result in a concentrated cash outflow or any significant concentration of assets that may result in restrictions in liquidating at short notice.

Liquid funds and cash flow forecasts are monitored regularly to ensure that the need for sufficient liquidity is balanced against investment return objectives.

Notes to the financial statements - continued

3. Risk management - continued

Market risk

Market risks are principally related to the Syndicate's investment activity, notably its holding of debt and other fixed income investments. Within this area, the primary risks to which the Syndicate is exposed are: currency risk and interest rate risk.

The Syndicate manages these exposures through its Investment Group. The Group is responsible for establishing and maintaining an investment policy in line with the risk appetite of the Syndicate. In addition, the Group is responsible for the management of all investment asset risks, the selection of its investment manager and reviewing investment performance.

The investment management function is outsourced to an external fund manager.

The Investment Group has established an asset allocation policy of investing primarily in listed debt, other fixed income securities and cash. The policy also stipulates that surplus cash can only be held on deposit with highly rated credit institutions until such time as suitable investments in appropriate listed debt and other fixed income securities can be made.

An investment management agreement has been established with the Syndicate's external fund manager. The agreement includes specific guidelines for each individual portfolio in order to limit risks arising from duration, currency, liquidity, credit and concentration exposures. The agreement also limits concentration of exposures to single countries, economic sectors and individual securities and provides for minimum standards of creditworthiness. The external fund manager provides quarterly affirmation of compliance with these guidelines.

Market risk - currency risk

The Syndicate transacts insurance business in the five main Lloyd's settlement currencies (Pound sterling, Euro, US dollars, Canadian dollars and Japanese yen). Assets are held in each of these currencies to generally match the liabilities arising in each of these currencies, the main components being claims settlements to policyholders, reinsurance premiums ceded and operational expenses.

The Syndicate is exposed to movements in foreign exchange where there is a mismatch between assets and liabilities in any of these currencies representing profits or losses recognised from the Syndicate's insurance operations. When a mismatch occurs the Syndicate looks to limit this mismatch exposure, wherever possible.

Notes to the financial statements - continued

3. Risk management - continued

Market risk - currency risk - continued

The following tables summarises the sterling equivalent net carrying value of financial instruments and monetary insurance balances by currency at 31 December:

	US Dollars	Sterling equivalent Sterling and		Total
	2016	Euros	other	2016
	£'000	£'000	£'000	£'000
Other financial investments	191,832	17,405	23,997	233,234
Reinsurers' share of claims outstanding	59,448	6,255	16,720	82,423
Debtors, accrued interest and prepayments and other accrued income	82,725	7,155	26,057	115,937
Cash at bank and in hand and overseas deposits	9,984	6,420	35,933	52,337
Net deferred acquisition costs	19,891	2,157	11,693	33,741
Claims outstanding	(208,773)	(35,519)	(98,785)	(343,077)
Creditors	(37,719)	(641)	(4,669)	(43,029)
Net provision for unearned premiums	(94,820)	(10,153)	(44,220)	(149,193)
Net exposure	22,568	(6,921)	(33,274)	(17,627)

	US Dollars	Sterling equivalent Sterling and		Total
	2015	Euros	other	2015
	£'000	£'000	£'000	£'000
Other financial investments	138,849	12,966	11,647	163,462
Reinsurers' share of claims outstanding	32,936	1,023	25,963	59,922
Debtors, accrued interest and prepayments and other accrued income	73,263	8,731	25,844	107,838
Cash at bank and in hand and overseas deposits	8,412	3,818	29,564	41,794
Net deferred acquisition costs	17,808	2,082	7,557	27,447
Claims outstanding	(156,015)	(21,882)	(71,783)	(249,680)
Creditors	(41,336)	(434)	(711)	(42,481)
Net provision for unearned premiums	(83,789)	(10,042)	(29,099)	(122,930)
Net exposure	(9,872)	(3,738)	(1,018)	(14,628)

Whilst the matching of liabilities with assets within the above currencies reduces economic exposure to currency risk, it does not prevent exchange gains and losses from being recognised in the profit and loss account. A 10% strengthening of sterling against the following currencies at 31 December 2016 would have increased/(decreased) the Syndicate's profits by the amounts shown below. This analysis assumes no hedging of currency and that all other variables remain constant.

Notes to the financial statements - continued

3. Risk management - continued

Market risk - currency risk - continued

	Net assets		Profit before tax	
	2016	2015	2016	2015
	£'000	£'000	£'000	£'000
US Dollars	(451)	197	(2,257)	987
Euros	138	75	692	374

A 10% weakening of sterling against the above currencies at 31 December 2016 would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Market risk - interest rate risk

The Syndicate's exposure to interest rate risk is primarily through its investments in debt and other fixed income securities due to instrument duration and the associated duration of the liabilities arising from insurance activities. The investment portfolio is managed based on the characteristics of the underlying liabilities and the alignment of the duration of the investment portfolio to the duration of the liabilities.

The actual durations measured in years for the fixed income portfolios were:

Euro	2016	2015
	%	%
0 to 1 years	22%	39%
1 to 2 years	12%	27%
over 2 years	66%	34%
Total assets bearing credit risk	100%	100%
Average duration in years	2.87	1.91
US Dollar	2016	2015
	%	%
0 to 1 years	24%	26%
1 to 2 years	25%	26%
over 2 years	51%	48%
Total assets bearing market risk	100%	100%
Average duration in years	2.16	2.02

Notes to the financial statements - continued

3. Risk management - continued

Market risk – interest rate risk - continued

Canadian Dollar	2016 %	2015 %
0 to 1 years	0%	-
1 to 2 years	37%	-
over 2 years	63%	-
Total assets bearing market risk	100%	-
Average duration in years	1.82	-

The investment portfolio is periodically analysed for changes in duration and related price change risk. The evaluation is performed by applying an instantaneous change in yield rates of varying magnitude on a static balance sheet to determine the effect such a change in rates would have on the fair value at risk and the resulting effect on net assets.

To illustrate the down side risk within the debt and other fixed income securities portfolio of £206.7 million as at 31 December 2016 (2015: £119.0 million), the impact of an increase of 100 basis points in interest yields across all portfolios simultaneously has been estimated. The Syndicate does not hedge interest rate risk and, assuming this continues and that all other variables remain constant, such an increase would decrease the market value of the investment portfolio and lead to a decrease in the total investment return of £4.2 million (2015: £2.3 million).

On the basis that all other variables remain constant, a decrease of 100 basis points in interest rates at 31 December 2016 would have had an equal and opposite effect to the amounts shown above.

Operational risk

The Syndicate is exposed to operational risks associated with internal processes, people, systems and external events. These exposures are analysed, monitored and managed. The Syndicate has a well developed and tested business continuity plan and IT disaster recovery plan. The operational risk management framework also includes an operational loss reporting facility handled through the Syndicate's broader risk management framework. HUA arranges Corporate Insurances to help protect against financial loss.

Strategic and Group risk

The risk universe covers all group operations with a risk register in place to ensure risk can be managed and monitored at the local level as well as Syndicate and Group.

Group risk is the risk that the Syndicate's business units fail to consider the impact of their activities on other parts of the group, as well as the risks arising from their activities. The primary areas of focus in respect of group risk are:

Notes to the financial statements - continued

3. Risk management - continued

Capital

A risk based approach is used to determine the amount of capital required to support the activities of the Group. Recognised stochastic modelling techniques are used to measure risk exposures, and capital to support business activities is allocated according to risk profile. Stress and scenario analysis is performed and the results are reviewed against Board risk appetite.

Reputation

Negative publicity as a result of the Group's contractual arrangements, customers, products, services and other activities could impact upon our brand and our ability to deliver against our business plan and interact as needed with the capital markets. We aim to minimise reputation risks, but where reputational risk arises, it would be contained by prompt management of public communications.

Shared services

The Syndicate has reliance on certain group services, such as financial systems. Any issues in these services will manifest as group risk. These outsourced service risks are monitored and assessed at both the local and group level.

Notes to the financial statements - continued

4. Segmental Information

An analysis of the underwriting result before investment return is set out below, using segmental classes as prescribed by Lloyd's.

For the year ended 31 December 2016:

	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000
Direct insurance					
Accident and health	8,565	13,188	(5,330)	(4,434)	363
Marine, aviation and transport	46,317	43,077	(38,183)	(14,483)	1,926
Fire and other damage to property	69,559	63,696	(36,646)	(21,415)	(2,569)
Third party liability	32,557	23,875	(19,702)	(8,027)	(1,282)
Pecuniary loss	19,121	13,172	(33,735)	(4,428)	3,491
Total direct	176,119	157,008	(133,596)	(52,787)	1,929
Reinsurance accepted	109,546	113,286	(72,933)	(38,087)	(697)
Total	285,665	270,294	(206,529)	(90,874)	1,232

For the year ended 31 December 2015:

	Gross written premiums £'000	Gross premiums earned £'000	Gross claims incurred £'000	Net operating expenses £'000	Reinsurance balance £'000
Direct insurance					
Accident and health	15,124	14,956	(8,452)	(6,776)	(806)
Marine, aviation and transport	66,957	73,502	(37,158)	(24,920)	(14,506)
Fire and other damage to property	114,672	114,932	(61,099)	(38,908)	(16,820)
Third party liability	24,409	19,836	(15,660)	(5,825)	(388)
Pecuniary loss	20,835	13,393	(17,248)	(5,410)	479
Total direct	241,997	236,619	(139,617)	(81,839)	(32,041)
Reinsurance accepted	25,941	24,722	(6,251)	(7,964)	(6,813)
Total	267,938	261,341	(145,868)	(89,803)	(38,854)

Notes to the financial statements - continued

4. Segmental Information - continued

Geographical regions

Gross premiums written by location of risk:

	2016 £'000	2015 £'000
UK	14,617	16,006
Other European Union member states	15,867	8,484
United States of America	55,041	54,919
Worldwide	200,140	188,529
Gross premiums written	285,665	267,938

The 2015 figures have been represented to ensure consistency with the 2016 geographical regions.

5. Claims incurred

Over/(under) provisions for claims at the beginning of the year as compared with net payments and provisions at the end of the year in respect of prior years' claims are as follows:

	2016 £'000	2015 £'000
Commercial	14,739	12,588
Specialty	(5,807)	(8,902)
Total	8,932	3,686

Notes to the financial statements - continued

6. Net operating expenses

	2016 £'000	2015 £'000
Acquisition costs	63,332	56,068
Other acquisition costs	4,966	3,707
Change in deferred acquisition costs	(3,567)	599
Change in reinsurance commissions	(3,994)	(4,604)
Change in ceded deferred acquisition costs	(657)	(834)
Total acquisition costs	60,080	54,936
Administrative expenses	30,794	34,867
Total	90,874	89,803

Administrative expenses include:

	2016 £'000	2015 £'000
Operating lease expenses recharged from CNA Services	2,193	1,598
Auditor's remuneration	149	157

The Syndicate has not disclosed the fees payable to the Syndicate's auditor for 'Other services' as this information is included in the consolidated financial statements of Hardy Underwriting Group plc.

7. Staff numbers and costs

A management fee for the provision of administration services is payable to CNA Services. During 2016 no staff were employed by the managing agent and no staff costs were incurred by the managing agent during 2016 (2015: nil and £nil).

Notes to the financial statements - continued

8. Emoluments of the directors of Hardy (Underwriting Agencies) Limited

The following directors of HUA served during the period, listed below, were all employed and remunerated by CNA Services. It is not practicable to allocate these directors' remuneration between their services across the companies of which they are executives. Therefore the remuneration and pension benefits are included in the financial statements of the individual company which employed and remunerated them, CNA Services:

P J Gage, C A Kearney and D J Stevens

The following directors of HUA served during the period, listed below, were all employed and remunerated by Continental Casualty Company ("CCC"), a member of the CNA group. It is not practicable to allocate these directors' remuneration between their services across the companies of which they are executives. Therefore the remuneration and pension benefits are included in the financial statements of the individual company which employed and remunerated them, CCC:

J M Anderson, D J Brosnan, T F Motamed, and T J Szerlong

Within Note 6, administrative expenses include the active underwriter's emoluments for the full year of:

	2016 £'000	2015 £'000
Emoluments	579	699

9. Other financial investments

	Cost 2016 £'000	Cost 2015 £'000	Fair Value 2016 £'000	Fair Value 2015 £'000
Debt securities and other fixed income securities	182,601	114,613	206,724	119,025
Shares and other variable yield securities	11	14,163	11	14,163
Deposits with credit institutions	26,499	30,274	26,499	30,274
Total	209,111	159,050	233,234	163,462

Other financial investments measured by the fair value hierarchy at 31 December are summarised below:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
2016				
Other financial investments	37,471	195,763	-	233,234
2015				
Other financial investments	24,419	139,043	-	163,462

Notes to the financial statements - continued

10. Debtors arising out of direct operations

	2016 £'000	2015 £'000
Amounts due from intermediaries	107,405	96,357
Impairment provision	(238)	(720)
Total	107,167	95,637

	2016 £'000	2015 £'000
Within one year	107,032	95,093
After one year	135	544
Total	107,167	95,637

11. Other debtors

	2016 £'000	2015 £'000
Other tax and social security	160	104
Insurance premium tax	132	904
Amounts due from group companies	-	1,894
Sundry debtors	89	-
Total	381	2,902

All amounts are expected to be recovered within one year.

12. Overseas deposits

Overseas deposits are lodged as a condition of conducting underwriting business in certain territories.

Notes to the financial statements - continued

13. Technical provisions

Total technical provisions

	2016 £'000	2015 £'000
Gross		
Claims reported	209,730	152,298
Loss adjustment expenses	5,702	5,853
Claims incurred but not reported	127,645	91,529
Unearned premiums	173,871	146,722
Total gross insurance liabilities	516,948	396,402
Reinsurers' share of insurance liabilities		
Claims reported	57,034	41,211
Claims incurred but not reported	25,389	18,711
Unearned premiums	24,678	23,792
Total reinsurers' share of insurance liabilities	107,101	83,714
Net		
Claims reported	152,696	111,087
Loss adjustment expenses	5,702	5,853
Claims incurred but not reported	102,256	72,818
Unearned premiums	149,193	122,930
Total net insurance liabilities	409,847	312,688

The gross liabilities for claims reported, loss adjustment expenses and claims incurred but not reported are net of expected recoveries from salvage and subrogation. The amounts for salvage and subrogation at the end of the current and prior year are not material.

On 27 February 2017 the UK Government announced an update to the discount rate applicable in the Ogden tables, from 2.5% to -0.75%. The Ogden tables are used to assist in calculating claims reserves for serious personal injury claims, to which the Syndicate has certain exposures. In the context of this change, the Syndicate considers that it has adequate carried loss reserves at 31 December 2016.

Notes to the financial statements - continued

13. Technical provisions - continued

Movement in technical provisions

	Provision for unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2015	139,342	235,385	374,727
Foreign exchange revaluation	783	7,216	7,999
Movement in provision	6,597	7,079	13,676
At 1 January 2016	146,722	249,680	396,402
Foreign exchange revaluation	11,778	44,697	56,475
Movement in provision	15,371	48,700	64,071
At 31 December 2016	173,871	343,077	516,948
Reinsurance amount			
At 1 January 2015	27,788	79,649	107,437
Foreign exchange revaluation	(9,170)	2,368	(6,802)
Movement in provision	5,174	(22,095)	(16,921)
At 1 January 2016	23,792	59,922	83,714
Foreign exchange revaluation	(608)	10,789	10,181
Movement in provision	1,494	11,712	13,206
At 31 December 2016	24,678	82,423	107,101
Net			
At 31 December 2016	149,193	260,654	409,847
At 31 December 2015	122,930	189,758	312,688

Notes to the financial statements - continued

13. Technical provisions - continued

Claims development table gross of reinsurance

Underwriting year	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
100% syndicate values												
At end of first year	91,507	119,058	125,617	139,605	214,419	229,653	220,604	168,011	172,763	172,116	185,013	1,838,366
One year later	(11,590)	(14,539)	1,070	11,608	92,009	17,611	(52,305)	11,766	213	34,320		
Two years later	(1,819)	(2,787)	(6,978)	(6,618)	7,576	(4,825)	(1,371)	(970)	6,950			
Three years later	4,504	(7,238)	(184)	(2,968)	5,105	(4,149)	(2,496)	(12,436)				
Four years later	(6,487)	570	(5,548)	-	3,504	3,558	215					
Five years later	(734)	(1,069)	215	(1,658)	575	(2,547)						
Six years later	528	98	(1,902)	2,807	592							
Seven years later	1,748	178	(44)	(1,993)								
Eight years later	(220)	(339)	(1,843)									
Nine years later	(297)	(1,683)										
Ten years later	(1,583)											
Current estimate of ultimate claims	75,557	92,249	110,403	140,783	323,780	239,301	164,647	166,371	179,926	206,436	185,013	1,884,466
Cumulative payments to date	(74,703)	(88,986)	(108,658)	(138,346)	(312,828)	(223,275)	(138,470)	(140,453)	(100,234)	(73,327)	(18,928)	(1,418,208)
Provision as at 31 December 2016	854	3,263	1,745	2,437	10,952	16,026	26,177	25,918	79,692	133,109	166,085	466,258
Claims to be recognised in future underwriting years	-	-	-	(36)	(114)	(209)	(696)	(973)	(7,820)	(22,198)	(94,457)	(126,503)
Insurance liabilities in respect of prior underwriting years												3,322
Insurance liabilities as at 31 December 2016												343,077

Notes to the financial statements - continued

13. Technical provisions - continued

Claims development table net of reinsurance

Underwriting year	2006 £'000	2007 £'000	2008 £'000	2009 £'000	2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	Total £'000
100% syndicate values												
At end of first year	71,479	91,061	103,276	109,808	147,567	148,553	141,370	139,674	151,480	146,730	159,492	1,410,490
One year later	(2,110)	(8,525)	(2,699)	(1,020)	23,690	(3,232)	(23,673)	18,380	5,905	32,493		
Two years later	(17)	(2,705)	(6,250)	(5,210)	585	4,157	(561)	(3,791)	(3,707)			
Three years later	2,685	(6,345)	(6,295)	(379)	2,299	(3,503)	(1,385)	(16,674)				
Four years later	(4,074)	(3,431)	(340)	(2,631)	3,331	2,325	(3,630)					
Five years later	(656)	168	(298)	(3,660)	4,170	(6,487)						
Six years later	1,363	467	(1,387)	2,912	(5,014)							
Seven years later	(1,479)	134	(413)	(2,113)								
Eight years later	(89)	(1,590)	(1,157)									
Nine years later	(199)	(1,730)										
Ten years later	(1,765)											
Current estimate of ultimate claims	65,138	67,504	84,437	97,707	176,628	141,813	112,121	137,589	153,678	179,223	159,492	1,375,330
Cumulative payments to date	(64,570)	(65,870)	(82,220)	(95,484)	(171,689)	(136,438)	(101,400)	(118,756)	(92,777)	(68,985)	(17,957)	(1,016,146)
Provision as at 31 December 2016	568	1,634	2,217	2,223	4,939	5,375	10,721	18,833	60,901	110,238	141,535	359,184
Claims to be recognised in future underwriting years	-	-	-	-	(74)	(178)	(491)	(425)	(139)	(16,541)	(81,310)	(99,158)
Insurance liabilities in respect of prior underwriting years												628
Insurance liabilities as at 31 December 2016												260,654

Notes to the financial statements - continued

13. Technical provisions - continued

The analysis shows the Syndicate's estimate of the ultimate cost of claims at initial assessment and annually thereafter. An underwriting year basis, rather than an accident year basis, has been presented as this is used internally for the assessment of underwriting performance. Data from all years has been restated at the 2016 closing rates of exchange to remove fluctuations caused by movements in foreign currency rates.

Each table then provides a reconciliation of the syndicate level reserves to the liability provided in the Syndicate's statement of financial position. The adjustments have the effect of:

- converting the assessment of claims liabilities from an ultimate to an earned basis, by removing the estimated cost of future claims that are attributable to the unearned premium reserve; and
- including the Syndicate's share of liabilities for the pre-2005 underwriting years

14. Other creditors

	2016 £'000	2015 £'000
Amounts due to group companies	631	-
Contingent commissions	366	80
Amounts owed to credit institutions	57	-
Sundry creditors	177	475
Total	1,231	555

15. Related parties

The immediate parent undertaking of HUA is Hardy Underwriting Group plc a company incorporated in the United Kingdom and registered in England and Wales.

The ultimate parent and controlling party is Loews Corporation, incorporated in the United States of America. Group financial statements for Loews Corporation are available from 667 Madison Avenue, New York, 10065-8087, USA.

CICL provided HUL with Funds at Lloyd's to support the Syndicate's capital requirement to continue underwriting at Lloyd's. HUL pays a fee for this provision.

During the year CNA Services recharged £30,495,000 (2015: £34,770,000) in administrative expenses to the Syndicate. These amounts are included within Note 6.

During the year Hardy Underwriting Asia Pte. Limited recharged £2,622,000 (2015: £2,000,000) in administrative expenses to the Syndicate. These amounts are included within Note 6.

Managing agent fees of £495,000 (2015: £2,475,000) were paid by the Syndicate to HUA during 2016.

During the year the Syndicate purchased £nil (2015: £85,000) of reinsurance from CNA.

Notes to the financial statements - continued

16. Funds at Lloyd's

Every member of Lloyd's is required to hold capital at Lloyd's. This capital is held in trust and is known as Funds at Lloyd's ("FAL"). The funds are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating member's underwriting activities.

The level of FAL that Lloyd's requires a member to maintain is ultimately determined by Lloyd's taking account, inter alia, of a number of factors including the nature and amount of underwriting risk assumed by the member and the assessment of the reserving risk in respect of business that has already been underwritten. FAL is not under the management of the managing agent, so no amounts have been shown in these financial statements to reflect it. The managing agent is able to make a call on member's FAL to meet liquidity requirements and to settle losses should this be required.

17. Post balance sheet events

The reinsurance premium to close the 2014 year of account of Syndicate 382 at 31 December 2016 was agreed by the managing agent on 14 February 2017. £18.3 million will be distributed to the member.