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Ariel Re

Member Argo Group

Ariel Re Syndicate 1910
Syndicate Annual Report and Accounts
31 December 2016

Contents

Directors and Advisors

MANAGING AGENT'S REGISTERED OFFICE

Argo Managing Agency Limited
Exchequer Court
33 St Mary Axe
London EC3A 8AA

MANAGING AGENT'S REGISTERED NUMBER

03768610

DIRECTORS

A P Latham (Chairman)
D Argyle
J S Bullock
P L Burrows
P J Grant
D J Harris
D M Lang
K A Nealon
B C Ritchie
M E Watson III

SYNDICATE

Ariel Syndicate 1910

ACTIVE UNDERWRITER

D Kirby

BANKERS

Barclays Bank Plc
Citibank NA
RBC Dexia

AUDITORS

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

Chairman's Statement

I am pleased to present my first report to you as Chairman of Argo Managing Agency Limited and its managed Syndicate 1910. I am delighted that, following the acquisition of Ariel Re by the Argo group on February 6 2017, Ariel Syndicate 1910 has now novated from Asta Managing Agency Ltd ("Asta") to Argo Managing Agency Limited.

Ariel Re 1910 is a very successful business and has produced superior returns for a number of years. The Syndicate writes predominately reinsurance business and therefore complements our existing businesses and enables us to better serve our clients.

I would also like, on behalf of everyone at Argo and Ariel Re, to thank Asta for all their hard work facilitating the development of Syndicate 1910 at Lloyd's since 2007, and their excellent co-operation and advice during the recent novation process.

RESULTS SUMMARY

Gross written premiums decreased from £274.7m in 2015 to £199.9 in 2016, yielding a £4.1m profit compared to £28.3m in 2015. Total comprehensive income is £29.5m compared to £34.1m in 2015.

The principal reason for the fall in written premium was that a large inwards reinsurance contract which was written on the last day of 2015 (and therefore into the 2015 year of account) was renewed on 1 January 2017 (and therefore into the 2017 year of account). The written premium for this contract is not, therefore, reflected in 2016's Report and Accounts but will be in 2017's.

2016 saw a series of large losses which severely impacted the calendar year combined ratio, driving it up to 101.5% from 71.3%. These losses included Hurricane Matthew, fires in Alberta, and the New Zealand Earthquake. Most of these losses fell on the 2016 Year of Account which nevertheless is still forecast to beat plan by the time it closes at the end of 2018, despite challenging market conditions that continued to erode profit margins and premium volumes.

The 2015 Year of account has performed very creditably and is above plan. It is currently forecast to close at the end of 2017 with a return of 14.9% on capacity. The 2014 Year of account closes as at the end of 2016 with an excellent return of 34.2% on capacity (compared to a forecast at end of 2015 of 26.6%) thanks to a benign period of losses, and a stronger rating environment than the one in which we find ourselves now.

The prudent reserving policy of the Syndicate in prior years enabled releases as risk expired or large losses were settled, which contributed to underwriting results on an annualised basis. As well as this, the Syndicate holds surplus profits in US dollars, which is its functional currency, and therefore the depreciation of Sterling versus the Dollar following the EU referendum also had a significant positive effect on results.

STAFF COMMITMENT

2016 was a particularly demanding year for Ariel Re staff as the previous shareholders explored the sale of the Company through a process which took most of the year. Their continued dedication and enthusiasm through this time, along with a determination to maintain underwriting discipline and a commitment to core principles, means the Syndicate is in the best possible position to navigate through the current market conditions and be a meaningful contributor to the future success of Argo.

I, and everyone at Argo, look forward to working with our new colleagues.

Anthony P. Latham

Tony Latham
Chairman
16 March 2017

Report of the Directors of the Managing Agent

On 6 February 2017 the Argo group acquired the Ariel Re group, and on 7 February 2017 the Syndicate novated from Asta Managing Agency Ltd to Argo Managing Agency Limited, a company registered in England and Wales.

The directors of the Argo Managing Agency Limited accordingly present their report for the year ended 31 December 2016.

REPORTING BASIS

These Syndicate annual accounts are 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").

RESULTS

The total recognised income for calendar year 2016 is a profit of £29.5m (2015: profit of £34.1m). Profits will be distributed by reference to the results of individual underwriting years.

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

The Syndicate's principal activity continues to be the underwriting of direct insurance and reinsurance business in the Lloyd's market.

The Syndicate's key financial performance indicators during the year were as follows:

	2016 £'000	2015 £'000	Change %
Gross written premiums	199,879	274,656	(27.2)%
Profit for the financial year	4,055	28,330	(85.7)%
Total comprehensive income	29,481	34,102	(13.6)%
Claims ratio	73.5%	25.5%	(48.0)%
Expense ratio	28.0%	45.8%	17.8%
Combined ratio	101.5%	71.3%	(30.2)%

An analysis of gross written premium is provided in note 2 to the accounts.

In December 2015, the Syndicate wrote (on the 2015 year of account) a material inwards reinsurance contract comprising predominantly personal lines, and some limited small commercial lines. In January 2017 this contract was renewed for the 2017 year of account. The contract has a capped catastrophe loss ratio. This contract does not cede through to the whole account quota share treaty provided by SPS 6117 for the 2015 year of account but does for the 2017 year of account.

Traditionally, the performance of the Syndicate has been assessed by measuring, as a percentage of underwriting capacity, the 36 month result on a funded accounting basis for a "closed" underwriting year of account.

The return on capacity for the 2014 closed year of account at 31 December 2016 is shown below together with forecasts for the two open years of account.

	2014 YOA Closed	2015 YOA Open	2016 YOA Open
Stamp Capacity (£'000)	174,080	220,182	121,152
Result/forecast (£'000)	63,722	46,377	7,303
Return on capacity (%)	34.26%	14.90%	6.03%

REINSURANCE PROGRAMME PURCHASE

The Syndicate purchases reinsurance to assist in achieving its strategic objectives by managing risk aggregation and improving the return on capital of the Syndicate as a whole. The uses of proportional and excess of loss protection varies by type of business depending on the nature of the business.

The 2016 reinsurance strategy remained in line with 2015 focussing on reducing the ceded margin whilst remaining within the Syndicate's risk appetite.

The Syndicate continued to place the reinsurance programme with high quality reinsurers, nearly all being with Tier 1 reinsurers rates A- to AAA by Standards and Poor's, with significant reinsurers providing collateral for their full exposure.

INVESTMENTS

Given the short-tail, "Cat" exposed nature of the Syndicate, financial funds are held in cash and assets of short duration, typically US Treasuries, with the aim of generating a modest return consistent with maintaining capital and liquidity.

FOREIGN EXCHANGE EXPOSURE POLICY

The aim of our policy is to minimise foreign exchange volatility in US Dollar terms (the functional currency of the Syndicate). To achieve this, we aim to match our assets and liabilities in currency. It is the Syndicate's policy to hold its surplus assets (profits) in US Dollars.

PRINCIPAL RISKS AND UNCERTAINTIES

Note 19 in the notes to the financial statements provides an analysis of the key insurance and financial risks to which the Syndicate is exposed

DONATIONS

Charitable donations during the year amounted to £nil (2015: £nil).

OUTLOOK AND FUTURE DEVELOPMENTS

The Syndicate plans to thoughtfully manage its existing portfolio on both a gross and net basis through the continued challenging market conditions. We will ideally maintain our franchise and distribution, but are conscious of the level of volatility in earnings with a decreasing expected profit due to the rate environment as the current market trends continue. The expectation is that the property treaty and marine reinsurance sectors will continue to reduce exposures as pricing on some accounts becomes unacceptable. Attractive new opportunities in the Reinsurance market will principally emerge through working with core clients on innovative solutions to their needs, rather than competing in the broader marketplace.

Ariel will continue to develop new initiatives through the application of high levels of technical expertise in the specialty insurance and reinsurance sector, as evidenced by our ongoing efforts in the Power Outage and Renewable Energy classes.

We also have the opportunity to work with the broader Argo Group and its global distribution network, which will undoubtedly widen the range of clients and brokers with whom we can trade in the future.

Our capacity for the 2017 year of account is £294.4m (2016 year of account £121.2m).

DIRECTORS AND OFFICERS SERVING IN THE YEAR

Details of the Directors of the Managing Agent who served during the year ended 31 December 2016 and to the date of this report:

Directors and officers:

A P Latham (independent non-executive; Chairman) (appointed 27 April 2016)
J Spencer (resigned 26 October 2016)
D Argyle
J S Bullock (non-executive)
P L Burrows (independent non-executive)
P J Grant (independent non-executive)
D J Harris
D M Lang (appointed 8 April 2016)
K A Nealon (independent non-executive)
B C Ritchie
M E Watson III (non-executive)

ANNUAL GENERAL MEETING

The directors do not propose to hold an annual general meeting for the Syndicate. If any member agent or direct corporate supporter of the Syndicate wishes to meet with them, the directors are happy to do so.

DISCLOSURE OF INFORMATION TO AUDITORS

So far as each person who was a director of the Managing Agent at the date of approving the report 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. Having made enquiries of fellow directors of the Agency and the Syndicate's Auditors, each director has taken all the steps that he or she 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

The Syndicate's auditors, Ernst & Young LLP, are deemed to be reappointed under the provisions of The Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 and Section 487(2) of the companies Act 2006.

Approved by the Board of Argo Managing Agency Limited and signed on behalf of the Board.

David Harris

D J Harris
Director

16 March 2017

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) including FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland. 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 subject to changes arising on the adoption of new accounting standards in the year;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the notes to the Syndicate accounts; and
- Prepare the Syndicate 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 adequate accounting records which disclose with reasonable accuracy at any time the financial position of the Syndicate and enable it to comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is 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.

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.

Report of the Independent Auditors

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 1910

We have audited the Syndicate annual accounts of Syndicate 1910 ('the Syndicate') for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Members' Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 20. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

This report is made solely to the Syndicate's members, 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 members 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 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 set out on page 8, 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 Syndicate Annual Report and Accounts 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 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 Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 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 annual accounts are prepared is consistent with the annual accounts.

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;
- 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.

Ernst & Young LLP

Andrew R. Blackmore (*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

	Notes	2016 £'000	2015 £'000
Gross premiums written	2	199,879	274,656
Outward reinsurance premiums		(111,293)	(77,596)
Net written premiums		88,586	197,060
Change in the provision for unearned premiums			
• Gross amount		65,352	(86,495)
• Reinsurers' share		7,230	(485)
Change in the net provision for unearned premiums	3	72,582	(86,980)
Earned premiums, net of reinsurance		161,168	110,080
Allocated investment return transferred from the non-technical account		592	384
Claims paid			
• Gross amount		(93,442)	(17,437)
• Reinsurers' share		9,640	5,328
		(83,802)	(12,109)
Changes in claims outstanding			
• Gross amount		(63,458)	(15,673)
• Reinsurers' share		28,792	(279)
Change in the net provision for claims	3	(34,666)	(15,952)
Claims incurred, net of reinsurance		(118,468)	(28,061)
Net operating expenses	4	(45,168)	(50,414)
Balance on technical account – general business		**(1,876)**	**31,989**

Income statement (continued)

Non-technical account - General business

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Balance on technical account – general business		(1,876)	31,989
Investment income	7	873	558
Realised/Unrealised losses on investments	7	(228)	(60)
Investment expenses and charges	7	(53)	(114)
Allocated investment return transferred to the general business technical account		(592)	(384)
Exchange gains and losses		5,931	(3,659)
Profit for the financial year		**4,055**	**28,330**

Statement of comprehensive income

For the year ended 31 December 2016

	2016 £'000	2015 £'000
Profit for the financial year	4,055	28,330
OCI – Currency translation differences	25,426	5,772
Total comprehensive income for the year	**29,481**	**34,102**

Statement of changes in members' balances

For the year ended 31 December 2016

	2016 £'000	2015 £'000
At 1 January	58,422	99,543
Total comprehensive income for the year	29,481	34,102
Currency movement on brought forward funds at Lloyd's in Syndicate	-	457
Payments of profit to member's personal reserve funds	(63,399)	(56,599)
Members' agent fees	(336)	-
Release of funds at Lloyd's in Syndicate trust funds	-	(19,081)
At 31 December	**24,168**	**58,422**

Statement of financial position

As at 31 December 2016

	Notes	2016 £'000	2015 £'000
Assets			
Investments			
Financial investments	8	112,852	123,778
		112,852	123,778
Reinsurers' share of technical provisions			
Provision for unearned premiums	3	31,862	17,721
Claims outstanding	3	62,263	26,568
		94,125	44,289
Debtors			
Debtors arising out of direct insurance operations	9	57,832	-
Debtors arising out of reinsurance operations	10	75,087	147,989
Other debtors		3,574	1,588
		136,493	149,577
Cash and other assets			
Cash at bank and in hand		30,552	21,287
Other assets	11	9,019	6,363
		39,571	27,650
Prepayments and accrued income			
Deferred acquisition costs	3	13,314	10,976
Other prepayments and accrued income		563	342
		13,877	11,318
Total assets		**396,918**	**356,612**

Statement of financial position (continued)

As at 31 December 2016

	Notes	2016 £'000	2015 £'000
Members' balances and liabilities			
Capital and reserves			
Member's balances		24,168	58,422
Liabilities			
Technical provisions			
Provision for unearned premiums	3	96,903	153,479
Claims outstanding	3	180,123	95,413
		277,026	248,892
Creditors			
Creditors arising out of direct insurance operations	13	9,532	-
Creditors arising out of reinsurance operations	14	80,143	44,014
Other creditors		266	3,173
		89,941	47,187
Accruals and deferred income		5,783	2,111
Total liabilities		372,750	298,190
Total member's balances and liabilities		**396,918**	**356,612**

The notes on pages 16 to 42 form part of these annual accounts.

The financial statements on pages 11 to 42 were approved by board of directors on 16 March 2017 and were signed on its behalf by:

D Argyle
Director
16 March 2017

D J Harris
Director
16 March 2017

Statement of cash flows

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
Cash flows from Operating activities			
Profit on ordinary activities		4,055	28,330
Increase in gross technical provisions		28,134	107,383
Increase in reinsurers' share of gross technical provisions		(52,174)	(2,174)
Decrease/(increase) in debtors		13,084	(87,652)
Increase in creditors		42,754	3,255
Decrease/(increase) in other asset/liabilities/foreign exchange		45,208	(4,718)
Investment Return		(592)	(384)
Net cash inflow from operating activities		80,469	44,040
Cash flows from Investing activities			
Purchase of financial instruments		(111,107)	(69,276)
Sale of financial instruments		96,721	94,345
Investment income received		592	384
Net cash(outflow)/ inflow from investing activities		(13,794)	25,453
Cash flows from Financing activities			
Payments of profit to member's personal reserve fund		(63,399)	(56,599)
Release of funds in Syndicate		-	(19,081)
Other		(336)	5,008
Net cash outflow from financing activities		(63,735)	(70,672)
Net increase/(decrease) in cash and cash equivalents		2,940	(1,179)
Cash and cash equivalents at beginning of year	12	80,627	81,806
Cash and cash equivalents at end of year	12	**83,567**	**80,627**

Notes to the Financial Statements

For the year ended 31 December 2016

1. ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The financial statements have been prepared in compliance 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' (FRS102) and Financial Reported Standard 103 'Insurance Contracts' (FRS 103), being applicable UK GAAP accounting standards, and in accordance with the provision of Schedule 3 of the Large and Medium–sized Companies and Groups (Accounts and Reports) Regulations 2008 pursuant to section 369 of the Companies Act 2006.

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

The Company transitioned from previously extant UK GAAP to FRS 102 and FRS 103 as at 1 January 2015.

BASIS OF PREPARATION

The financial statement of Ariel Syndicate 1910 were authorised for issue by the board of directors on 16 March 2017. The Financial statements have been prepared in accordance with applicable accounting standards. The Financial statements have been prepared in accordance with applicable accounting standards. The functional currency of the Syndicate is US dollars and the financial statements are prepared in sterling, rounded to the nearest £'000 unless otherwise stated.

As permitted by FRS103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

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 8 are now prepared on a basis consistent with the measurement of the financial instruments.

JUDGEMENT AND KEY SOURCES OF UNCERTAINTY

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that the actual outcomes could differ from those estimates. The following are the Syndicate's key sources of estimation uncertainty:

Premiums Written

Estimates are made for pipeline premiums, including amounts due to the Syndicate not yet notified. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

1. ACCOUNTING POLICIES (continued)

Claims incurred and reinsurer's share

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

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

Hence the two most critical assumptions for claims provisions are that the past is a reasonable predictor of future claims development, and that rating and other models used, including pricing models for recent business, are fair indicators of the ultimate claims that will be incurred.

The uncertainty of such estimations generally decreases with the time that has elapsed since policy inception. In addition short tail claims such as property, where claims are typically notified and settled quickly, will normally have less uncertainty after a few years than long tail risks, such as some liability business, where it may be several years before claims are fully advised and settled. Where disputes exist over coverage under policies, or the relevant law governing a claim changes, uncertainty in the estimation of outcomes may increase.

The assessment of these provisions can be the most subjective aspect of an insurer's accounts, and may result in greater uncertainty than found within the financial statements of other businesses. The directors of the Managing Agent consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available. However, ultimate liability can be varied by further information and events and this may result in significant adjustments to the provisions. Modifications to claims provisions established in prior years are shown in the financial statements for the period in which the adjustments are made. Provisions are not discounted for investment earnings that may arise on funds retained to meet future liabilities. The methods used, and the estimates made, are reviewed regularly.

1. ACCOUNTING POLICIES (continued)

Fair value of financial assets

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

a) Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

b) Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

c) Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

See Note 8 for details of financial instruments classified by fair value hierarchy.

BASIS OF ACCOUNTING

Under the annual basis of accounting, the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

Product Classification

Insurance contracts are those contracts that transfer significant insurance risk at the inception of the contract. Insurance risk is transferred when an insurer agrees to compensate a policyholder if a specified uncertain future event adversely affects the policyholder. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect.

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.

Premiums Written

Premiums written comprise premiums on contracts of insurance incepted during the financial year and any adjustments made in the year to estimates of premiums written in prior years. Premiums are shown gross of commission payable and exclude taxes and duties levied on them.

Unearned Premiums

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

Reinsurance Premium Ceded

Outward reinsurance premiums are accounted for on an earned basis in the same accounting period as the premiums for the related direct or inwards business being reinsured, except for Losses Occurring During Treaty reinsurance which is earned from the start of the reinsurance policy over the life of the policy.

1. ACCOUNTING POLICIES (continued)

Claims Incurred and reinsurers' share

Gross claims incurred comprise claims and settlement expenses (both internal and external) occurring during the year, and the movement in provision for outstanding claims and settlement expenses brought forward. Allowance is made for the cost of claims incurred by the date of the statement of financial position but not reported until after the year-end. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties.

Unexpired Risks Provision

Sometimes claims, related expenses and deferred acquisition costs, anticipated to arise after the end of the financial period (for contracts concluded before that date), are projected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any deferred acquisition costs. In such circumstances a provision for unexpired risks will be included within technical provisions in the statement of financial position. Such provision is calculated separately for classes of business which are managed together.

At 31 December 2016 and 31 December 2015 the Syndicate did not have an unexpired risks provision.

Reinsurance assets

The Syndicate cedes insurance risk in the normal course of business for all of its businesses. 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.

Gains or losses on buying reinsurance are recognised in the income statement immediately at the date of purchase and are not amortised. There were no such gains recognised in 2016 or 2015.

Ceded reinsurance arrangements do not relieve the Syndicate from its obligations to policyholders.

1. ACCOUNTING POLICIES (continued)

Net Operating Expenses (Including Acquisition Costs)

Net operating expenses include acquisition costs, profit and loss on exchange, and amounts charged to members through the Syndicate.

Where expenses are incurred by or on behalf of the Managing Agent for the administration of the managed Syndicate, they are apportioned using methods appropriate to the type of expense. Expenses which are incurred jointly for the Managing Agent and managed Syndicate are apportioned between the Managing Agent and Syndicate on bases dependant on the amount of work performed, resources used and the volume of business transacted.

Acquisition costs, comprising commission and other costs related to the acquisition of new insurance contracts are recognised by reference to premium written. They are deferred to the extent that they are attributable to and recoverable against premiums unearned at the balance sheet date. All other operating expenses are accounted for on an accruals basis.

Profit Commission

Profit commission was charged by Asta (when they were managing agent) and is now charged by Argo Managing Agency Limited at a rate of 1.5% up to £7.5m and 1% thereafter based on the profit on a year of account basis. Such commission does not become payable until after the appropriate year of account closes normally at 36 months.

Distribution of profits and collection of losses

Lloyd's has regulations on solvency and the distribution of profits and payment of losses between a Syndicate and its members. Lloyd's continues to require Syndicate membership to be on an underwriting year basis, and profits and losses belong to members according to their membership. Normally profits and losses are transferred between a Syndicate and its members after results for an underwriting year are finalised after 36 months. This period may be extended if an underwriting year is placed in run-off. The Syndicate may make earlier on account distributions or cash calls according to the cash flow of that underwriting year, subject to Lloyd's regulations.

Foreign Currencies

The Syndicate's functional currency is US dollars and its presentational currency is Sterling.

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. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including 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.

Exchange differences are recorded in the non-technical account.

1. ACCOUNTING POLICIES (continued)

Exchange Rates

The following balance sheet rates of exchange have been used in the preparation of these accounts:

	2016 Year end	2015 Year end
Euro	**1.17**	1.35
US dollar	**1.23**	1.48
Canadian dollar	**1.66**	2.05
Australian dollar	**1.71**	2.02
Japanese yen	**144.4**	178.6

Financial Investments

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

The Syndicate classifies it financial investments as financial assets at fair value through profit and loss.

The Syndicate's documented investment strategy is to manage financial investments acquired on a fair value basis.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date the Syndicate commits to purchase or sell the asset. Regular way purchases or sales of financial assets require delivery of asset within the time frame generally established by regulation or convention in the market place.

Directly held investments that are held as fixed assets are stated at cost less provision for permanent diminution in value. Investments held as current assets are stated at the lower of cost and market value.

Overseas deposits

Overseas deposits are stated at market value as at the date of the statement of financial position. The cost of investments held within these deposits is determined either on the same basis as Syndicate investment, or on a basis of notification received from Lloyd's.

Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and in hand and short term deposits with an original maturity date of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

1. ACCOUNTING POLICIES (continued)

Investment Return

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

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Movements in unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

An allocation of actual investments return on investments supporting the general insurance technical provisions and associated members' balance is made from the non-technical account to the technical account. Investment return related to non-insurance business and members' balance is attributed to the non-technical account. Investment return has been wholly allocated to the technical account as all investments relate to technical accounts.

Taxation

Under Schedule 19 of the Finance Act 1993 Managing Agents are not required to deduct basic rate income tax from trading income. Managing Agents can recover UK basic rate income tax deducted from Syndicate investment income, and consequently any distribution to members or 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 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 balance sheet under the heading 'other debtors'.

No provision has been made for any other foreign taxes payable by members on underwriting results.

2. SEGMENTAL ANALYSIS

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

2016:	**Gross written premiums**	**Gross premium earned**	**Gross claims incurred**	**Gross operating expenses**	**Reinsurance balance**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Direct insurance:						
Fire and other damage to property	53,778	43,486	(24,608)	(10,961)	(3,871)	4,046
Other	2,853	2,344	(842)	(406)	(399)	697
	56,631	45,830	(25,450)	(11,367)	(4,270)	4,743
Reinsurance	143,248	219,401	(131,450)	(45,418)	(49,744)	(7,211)
Total	199,879	265,231	(156,900)	(56,785)	(54,014)	(2,468)

2. SEGMENTAL ANALYSIS (continued)

2015:	Gross written premiums £'000	Gross premium earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance:						
Fire and other damage to property	3,618	8,901	(645)	(3,040)	(2,809)	2,407
Pecuniary loss	14,150	16,235	(3,530)	(4,505)	(1,859)	6,341
	17,768	25,136	(4,175)	(7,545)	(4,668)	8,748
Reinsurance	256,888	163,025	(28,935)	(50,038)	(61,195)	22,857
Total	274,656	188,161	(33,110)	(57,583)	(65,863)	31,605

Commissions on direct insurance gross premiums earned during 2016 were £8,321,413 (2015: £7,878,577).

The reinsurance balance is the aggregate total of all those items included in the technical account which relate to reinsurance outwards transactions including items recorded as reinsurance commissions and profit participation.

The reinsurance balance includes reinsurance commission receivable. Gross operating expenses are different to net operating expenses shown in the income statement as commissions in respect of outward reinsurance were received and net off in arriving at the net operating expenses for 2016.

All premiums were concluded in the UK. The geographical analysis of premium by destination (or by situs of risk) is as follows:

	2016 £'000	2015 £'000
UK	25,984	28,473
Canada	4,763	4,490
US	131,973	202,136
Rest of Europe	9,846	9,693
Other	27,313	29,864
	199,879	274,656

3. TECHNICAL PROVISIONS

	2016 Gross provisions £'000	2016 Reinsurance assets £'000	2016 Net £'000	2015 Gross provisions £'000	2015 Reinsurance assets £'000	2015 Net £'000
Claims outstanding						
Balance at 1 January	95,413	(26,568)	68,845	76,621	(24,785)	51,836
Change in claims outstanding	63,458	(28,792)	34,666	15,673	279	15,952
Effect of FX and other movements	21,252	(6,903)	14,349	3,119	(2,062)	1,057
Balance at 31 December	**180,123**	**(62,263)**	**117,860**	**95,413**	**(26,568)**	**68,845**
Claims notified	42,473	(8,806)	33,667	18,888	(2,374)	16,514
Claims incurred but not reported	137,650	(53,457)	84,193	76,525	(24,194)	52,331
Balance at 31 December	**180,123**	**(62,263)**	**117,860**	**95,413**	**(26,568)**	**68,845**
Unearned premiums						
Balance at 1 January	153,479	(17,721)	135,758	64,888	(17,330)	47,558
Change in unearned premiums	(65,352)	(7,230)	(72,582)	86,495	485	86,980
Effect of movements in exchange rates	8,776	(6,911)	1,865	2,096	(876)	1,220
Balance at 31 December	**96,903**	**(31,862)**	**65,041**	**153,479**	**(17,721)**	**135,758**
Deferred acquisition costs						
Balance at 1 January	10,976	-	10,976	8,299	-	8,299
Change in deferred acquisition costs	(305)	-	(305)	1,447	-	1,447
Effect of movements in exchange rates	2,643	-	2,643	1,230	-	1,230
Balance at 31 December	**13,314**	**-**	**13,314**	**10,976**	**-**	**10,976**

4. NET OPERATING EXPENSES

	2016 £'000	2015 £'000
Acquisition costs	27,008	26,726
Change in deferred acquisition costs	305	(1,447)
Administration expenses	29,472	32,304
Reinsurance commissions and profit participation	(11,617)	(7,169)
Net operating expenses	45,168	50,414

Member's standard personal expenses amounting to £3,204,676 (2015: £3,754,572) are included in administrative expenses. Member's standard personal expenses include Lloyd's subscriptions, new central fund contributions, Managing Agent's fees and profit commission.

5. AUDITOR'S REMUNERATION

	2016 £'000	2015 £'000
Audit of the Syndicate annual accounts	69	79
Other services supplied pursuant to such legislation	221	221
	290	300

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

6. STAFF COSTS AND EMOLUMENTS OF THE DIRECTORS OF THE MANAGING AGENT

No emoluments of the Directors of either Asta Managing Agency Ltd or Argo Managing Agency Limited were charged to the Syndicate during the year.

The emoluments of the active underwriter are borne by the Syndicate, and are not separately identifiable from the fee charged to the Syndicate.

No staff that worked on Syndicate business during the year were employed by either Asta Managing Agency Ltd or Argo Managing Agency Limited. The Syndicate is charged an administration fee that does not separately identify staff costs.

7. INVESTMENT RETURN

	2016 £'000	2015 £'000
Income from other financial investments	873	558
Net losses on realisation of investments		
- Fair value through profit or loss designated upon initial recognition	(46)	(13)
Net unrealised (losses) gains on investments		
- Fair value through profit and loss designated upon initial recognition	(182)	(47)
Investment expenses and charges	(53)	(114)
Total investment return	592	384

Average amount of funds available for investing during the year:	£'000
Combined Sterling	165,087
Sterling	4,894
Euro	8,351
United States Dollars	158,822
Canadian dollars	18,014
Japanese Yen	732,827
Australian Dollars	13,687

Gross calendar year investment yield:	%
Combined Sterling	0.40%
Sterling	0.00%
Euro	0.00%
United States Dollars	0.40%
Canadian dollars	0.36%
Japanese Yen	0.00%
Australian Dollars	1.28%

"Average fund" is the average of bank balances, overseas deposits and investments held at the end of each month during the calendar year. For this purpose, investments are revalued at month-end market prices, which include accrued income where appropriate.

8. FINANCIAL INVESTMENTS

	2016		
	Carrying value	Cost	Listed
	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts			
- Designated at fair value through profit or loss	53,015	53,015	53,015
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	59,837	60,080	59,837
	112,852	113,095	112,852

	2015		
	Carrying value	Cost	Listed
	£'000	£'000	£'000
Shares and other variable yield securities and units in unit trusts			
- Designated at fair value through profit or loss	59,340	59,340	59,340
Debt securities and other fixed income securities			
- Designated at fair value through profit or loss	64,438	64,538	64,438
	123,778	123,878	123,778

Amounts included within Shares and other variable securities include CIS/Unit Trusts where funds are invested in a single entity which invests in investments. These have the attributes of a cash instrument with the carrying value and purchase price being the same.

There was no material change during the period, and cumulatively, in the fair value of the financial instruments held at fair value through profit and loss attributable to changes in credit risk.

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 one profits recognised in respect of financial instruments designated at fair value through profit or loss.

8. FINANCIAL INVESTMENTS (continued)

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

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
31 December 2016				
Shares and other variable yield securities and units in unit trusts	-	53,015	-	53,015
Debt securities and other fixed income securities	59,837	-	-	59,837
Other assets	3,122	5,897	-	9,019
Total	62,959	58,912	-	121,871

	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
31 December 2015				
Shares and other variable yield securities and units in unit trusts	-	59,340	-	59,340
Debt securities and other fixed income securities	36,413	28,025	-	64,438
Other assets	5,728	635	-	6,363
Total	42,141	88,000	-	130,141

Included in the level 1 category are financial assets that are measured by reference to published quotes in an active market. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry Syndicate, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions. For example, assets for which pricing is obtained via pricing services but where prices have not been determined in an active market, financial assets with fair values based on broker quotes, investments in private equity funds with fair values obtained via fund managers and assets that are valued using the Syndicate's own models whereby the significant inputs into the assumptions are market observable.

The Syndicate holds no investments or financial instruments which fall into the level 3 category.

9. DEBTORS ARISING OUT OF DIRECT INSUANCE OPERATIONS

	2016	2015
	£'000	£'000
Due within one year – intermediaries	57,832	-
	57,832	-

10. DEBTORS ARISING OUT OF REINSURANCE OPERATIONS

	2016	2015
	£'000	£'000
Due within one year – intermediaries	73,098	147,989
Due after one year – intermediaries	1,989	-
	75,087	147,989

11. OTHER ASSETS

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

12. CASH AND CASH EQUIVALENTS

	2016	2015
	£'000	£'000
Cash at bank and in hand	30,552	21,287
Short-term deposits with financial institutions	53,015	59,340
	83,567	80,627

13. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2016	2015
	£'000	£'000
Due within one year	9,532	-
	9,532	-

14. CREDITORS ARISING OUT OF REINSURANCE OPERATIONS

	2016	2015
	£'000	£'000
Due within one year	30,872	6,827
Due after one year	49,271	37,187
	80,143	44,014

15. RELATED PARTIES

Asta previously provided service and support to Syndicate 1910 in its capacity as Managing Agent. Managing Agent's fees of £1.2m (2015: £1.2m) and service charges of £2.0m (2015: £2.9m) were recharged by Asta to the Syndicate during 2016. As at 31 December 2016 £nil (2015: £0.3m) was owed to Asta in respect of services provided.

Syndicate 1910 has recorded profit commission for the 2016 YOA of: £nil (2015: £nil).

The amount of premium written with Arrow Capital Reinsurance Company (ACRC) in the period was £nil (2015: £1.3m).

The amount of premium written with Ariel Reinsurance Ltd (Ariel Re) in the period was £1.0m (2015: £nil). At 31 December 2016, the amount receivable was £0.1 (2015: £nil).

From time to time, syndicates managed by Asta enter into (re)insurance contracts with one another. All such transactions are subject to Asta's internal controls which ensured during the year that all are compliant with Lloyd's Related Party Byelaw provisions.

The amount of premium written under a Managing General Agency (MGA) agreement with Ariel Re Bermuda Limited (ARBL) in the period was £134.4m (2015: £138.5m). At 31 December, the amount receivable was £75.2m (2015: £37.6m)

Ariel and Asta established a Special Purpose Syndicate 6117, backed by individual names advised by the member's agent Hampden, which has written a 30% whole account quota share of the net premiums, claims and expenses of Syndicate 1910 2016 Underwriting Year (2015: 20%). The net amount of premium ceded with Syndicate 6117 under the whole account quota share was £45.6m (2015: £24.2m), with overriding and profit commission earned coming to £0.4m (2015: £0.3m). As this quota share reinsurance is placed on a funds withheld basis, the net amount due as at 31 December 2016 of £57.9m (2015: £31.1m) will not become payable until the relevant underwriting year closes after 36 months.

Prior to the Argo group acquiring the Ariel Re group, Syndicate 1910 purchased reinsurance from Argo Re Ltd of £1.0m (2015: £nil) on normal commercial terms.

16. DISCLOSURE OF INTERESTS

Managing Agent's interest

Argo Managing Agency Limited is currently the Managing Agent for Lloyd's Syndicates 1200, 1910 and 6117.

The Financial Statements of the Managing Agency can be obtained by application to the Registered Office (see page 1).

17. 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 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 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 19 for further details.

18. OFF-BALANCE SHEET ITEMS

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

19. RISK MANAGEMENT

a) Governance framework

The primary objective of the Managing Agent in approaching the Syndicate's risk and financial management framework is to protect the Syndicate's members from events that hinder the sustainable achievement of financial performance objectives, including failing to exploit opportunities. Key management recognises the critical importance of having efficient and effective risk management systems in place.

The Managing Agent has an established a risk management function for its syndicates with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to execute management committees and senior managements. Lastly the Managing Agent has a syndicate policy framework which sets out the risk profiles for its syndicates, risk management, control and business conduct standards for the Syndicate's operations, and is being enhanced following the novation between managing agencies. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate.

The board of directors of the Managing Agent approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate goals, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including the articulation of "risk appetite".

19. RISK MANAGEMENT (continued)

b) Capital management objectives, policies and approach

Capital framework at Lloyd's

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 I figures are no longer applicable from that date. Although the capital regimes 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 central 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 level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Ariel Syndicate 1910 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 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 2017 was 35% of the member's SCR 'to ultimate'.

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, the ending members balances reported on the statement of financial position on page 14, represent resources available to meet the member's and Lloyd's capital requirements.

19. RISK MANAGEMENT (continued)

c) Insurance risk

The principal risk the Syndicate faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Syndicate is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The Syndicate purchases reinsurance as part of its risks mitigation programme. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance which is taken out to reduce the overall exposure to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the Syndicate's net exposure to catastrophe losses. Retention limits for the excess-of-loss reinsurance vary by product line and territory.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Syndicate has reinsurance arrangements. It is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that any reinsurer is unable to meet its obligations assumed under such reinsurance agreements. The Syndicate's placement of reinsurance is diversified such that it is neither dependent on a single reinsurer nor are the operations substantially dependent upon any single reinsurance contract.

The Syndicate writes predominately short-tail property-catastrophe business in the US and internationally. Reserving risk is managed through the Syndicate’s reserving committee.

The Syndicate uses both its own and commercially available risk management software to assess catastrophe exposure. However, there is always 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.

19. RISK MANAGEMENT (continued)

As a further guide to the level of catastrophe exposure written by the Syndicate, the following table shows hypothetical claims arising out of the RDS on the Syndicates in-force exposure at 31 December 2016.

	Estimated Gross loss	Estimated Net loss
	£'000	£'000
Two events – North East Windstorm	267,101	40,043
Florida Windstorm – Miami Dade	219,453	31,425
Florida Windstorm – Pinellas	316,153	60,301
Gulf of Mexico Windstorm – Major Hurricane landing in Galveston, Texas	334,095	55,806
California Earthquake – San Francisco	217,279	24,541
AEP Loss 30 Year Return Period – US WS (Incl GM WS)	308,575	53,916

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

		2016			2015	
	£'000	£'000	£'000	£'000	£'000	£'000
Marine and Aviation	2,284	592	1,692	1,480	75	1,406
Fire and Property	25,843	11,651	14,192	3,498	1,117	2,381
RI acceptances	151,996	50,020	101,976	90,436	25,376	65,060
	180,123	62,263	117,860	95,413	26,568	68,845

All business is written in the UK.

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 average claim costs, claim handling costs, claim inflation factors and claim numbers 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, 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.

Other key circumstances affecting the reliability of assumptions include variation in interest rates, delays in settlement and changes in foreign currency rates.

19. RISK MANAGEMENT (continued)

Sensitivities

The claim liabilities are sensitive to the key assumptions that follow. It has not been possible to quantify the sensitivity of certain assumptions such as legislative changes or uncertainty in the estimation process.

The following analysis is performed for reasonably possible movements in key assumptions with all other assumptions held constant, showing the impact on gross and net liabilities, profit and members' balances. The correlation of assumption will have a significant effect in determining the ultimate claims liabilities, but to demonstrate the impact due to changes in assumptions, assumptions had to be changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

2016	**Five % increase**	**Five % decrease**
	£'000	**£'000**
Gross amount of increase / (decrease) in reserves	13,851	(13,851)
Net amount of increase / (decrease) in reserves	9,145	(9,145)

2015	**Five % increase**	**Five % decrease**
	£'000	**£'000**
Gross amount of increase / (decrease) in reserves	12,445	(12,445)
Net amount of increase / (decrease) in reserves	10,230	(10,230)

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

Claims development table

The tables following show the Syndicate's cumulative incurred claims development, including both claims notified and IBNR for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.

The Syndicate has elected to translate estimated claims and claims payments at a consistent rate of exchange as determined by the balance sheet date.

The Syndicate has taken advantage of the transitional rules of FRS 103 that permit only five years of information to be disclosed upon adoption. The claims development information disclosed is being increased from five years to ten years over the period 2016-2020.

In settling claims provisions the Syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus. In 2016 the surplus was £14.6m.

19. RISK MANAGEMENT (continued)

Underwriting year	2011	2012	2013	2014	2015	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of cumulative gross claims incurred:						
At end of underwriting year	37,104	63,447	25,512	45,200	43,330	82,623
One year later	37,533	71,002	36,762	49,729	146,461	
Two years later	38,058	71,166	33,985	46,422		
Three years later	38,668	68,796	31,491			
Four years later	37,919	66,711				
Five years later	37,525					
Less cumulative gross paid	(36,941)	(47,984)	(26,468)	(32,559)	(81,402)	(7,254)
Liability for gross outstanding claims (2012 to 2016)	584	18,727	5,023	13,863	65,059	75,369
Liability for gross outstanding claims (2010 and before)						1,498
Total gross outstanding claims all years						180,123

Underwriting year	2011	2012	2013	2014	2015	2016
	£'000	£'000	£'000	£'000	£'000	£'000
Estimate of cumulative net claims incurred:						
At end of underwriting year	31,733	53,564	22,357	13,885	31,041	44,839
One year later	34,309	61,972	32,685	22,728	131,224	
Two years later	34,920	62,135	30,216	33,427		
Three years later	34,900	59,637	25,742			
Four years later	34,777	52,071				
Five years later	33,812					
Less cumulative net paid	(33,374)	(38,026)	(21,975)	(30,372)	(75,554)	(5,078)
Liability for net outstanding claims (2012 to 2016)	438	14,045	3,767	3,055	55,670	39,761
Liability for net outstanding claims (2010 and before)						1,124
Total net outstanding claims all years						117,860

19. RISK MANAGEMENT (continued)

d) Financial risk

1) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to honour their obligation to the Syndicate.

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

- Investment guidelines are established setting out the quality of investments to be included within the Syndicates portfolio. The policy is monitored by the Investment Committee.

- Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits. If the counterparty is downgraded or does not have a good credit rating, then collateral is sought to mitigate any risk. This is monitored by the Reinsurance Security Committee.

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. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements.

2016	**£'000**			
	Neither past due or impaired	**Past due**	**Impaired**	**Total**
Shares and other variable yield securities	53,015	-	-	53,015
Debt Securities	59,837	-	-	59,837
Overseas Deposits	9,019	-	-	9,019
Reinsurers share of claims outstanding	62,263	-	-	62,263
Debtors arising out of direct insurance operations	56,330	1,502	-	57,832
Debtors arising out of reinsurance operations	12,681		-	12,681
Other debtors	111,719	-	-	111,719
Cash at bank and in hand	30,552	-	-	30,552
Total	395,416	1,502	-	396,918

19. RISK MANAGEMENT (continued)

2015	£'000			
	Neither past due or impaired	Past due	Impaired	Total
Shares and other variable yield securities	59,340	-	-	59,340
Debt Securities	64,438	-	-	64,438
Overseas Deposits	6,363	-	-	6,363
Reinsurers share of claims outstanding	26,568	-	-	26,568
Other debtors	1,588	-	-	1,588
Cash at bank and in hand	21,287	-	-	21,287
Total	179,584	-	-	179,584

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2016 by classifying assets according to independent credit ratings of the counterparties. AAA is the highest possible rating. Assets that fall outside the range of AAA to BBB are classified as speculative grade and have not been rated, Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

2016	£'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	53,015	-	-	-	53,015
Debt Securities	-	59,837	-	-	-	-	59,837
Overseas Deposits	6,257	164	1,424	1,072	8	94	9,019
Reinsurers share of claims outstanding	18,845	-	43,418	-	-	-	62,263
Debtors arising out of reinsurance operations	-	-	12,681	-	-	-	12,681
Cash at bank and in hand			30,552				30,552
Total	25,102	60,001	141,090	1,072	8	94	227,367

2015	£'000						
	AAA	AA	A	BBB	BBB or less	Not Rated	Total
Shares and other variable yield securities	-	-	59,340	-	-	-	59,340
Debt Securities	64,438	-	-	-	-	-	64,438
Overseas Deposits	4,476	722	936	217	-	12	6,363
Reinsurers share of claims outstanding	26,568	-	-	-	-	-	26,568
Cash at bank and in hand			21,287				21,287
Total	25,102	60,001	141,090	1,072	8	94	227,367

19. RISK MANAGEMENT (continued)

Maximum credit exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business.

During the year, no credit exposure limits were exceeded.

2) Liquidity risk

Liquidity risk is the risk that the Syndicate will encounter difficulty in meeting obligations associated with financial instruments. In respect of catastrophic events there is also a liquidity risk associated with the timing differences between the gross cash out-flows and expected reinsurance recoveries.

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

- A liquidity policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is regularly reviewed for pertinence and for changes in the risk environment.
- Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investments contracts obligations.
- Contingency funding plans are set up which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.
- Certain reinsurance contracts have provisions to draw down on collateral.

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 result from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

2016 — **£'000**

	No stated maturity	**0-1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**	**Total**
Claims outstanding	-	108,898	60,134	11,090		180,123
Creditors	-	40,690	49,251	-	-	89,941
Total	-	149,588	109,385	11,090	-	270,064

2015 — **£'000**

	No stated maturity	**0-1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 years**	**Total**
Claims outstanding	-	57,684	31,854	5,875	-	95,413
Creditors	10,000	-	37,187	-	-	47,187
Total	10,000	57,684	69,041	5,875	-	142,600

19. RISK MANAGEMENT (continued)

3) Market risk

a) 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 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 the estimated 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 currency exchange risk at the reporting date, as follows:

2016				**£'000**				
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**OTH**	**Total**
Total Assets	32,316	297,911	12,373	17,819	14,879	7,833	13,787	396,918
Total Liabilities	(44,741)	(274,398)	(8,725)	(13,778)	(9,434)	(4,979)	(16,695)	(372,750)
Net Assets	(12,425)	23,513	3,648	4,041	5,445	2,854	(2,908)	24,168

2015				**£'000**				
	GBP	**USD**	**EUR**	**CAD**	**AUD**	**JPY**	**OTH**	**Total**
Total Assets	19,306	300,713	5,013	8,310	11,512	6,857	4,901	356,612
Total Liabilities	(29,913)	(242,291)	(4,292)	(2,441)	(11,166)	(4,482)	(3,605)	(298,190)
Net Assets	(10,607)	58,422	721	5,869	346	2,375	1,296	58,422

The Syndicate matches its currency position so holds net assets across a number of currencies. The Syndicate takes into consideration the underlying currency of the Syndicate's required capital and invests its assets proportionately across these currencies so as to protect the solvency of the Syndicate, against variation in foreign exchange rates.

19. RISK MANAGEMENT (continued)

Sensitivity to changes in foreign exchange rates

The table below gives an indication of the impact on profit of a percentage change in the relative strength of Sterling against the value of the US dollar, Canadian dollar and Euro dollar simultaneously. The analysis is based on the information as at 31st December 2016.

	Impact on profit and member's balance	
	2016	**2015**
	£'000	**£'000**
Sterling weakens		
10% against other currencies – (increase) in profit	(3,659)	(6,774)
20% against other currencies – (increase) in profit	(7,319)	(13,548)
Sterling strengthens		
10% against other currencies – decrease in profit	3,659	6,774
20% against other currencies – decrease in profit	7,319	13,548

b) 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 and variable financial assets and liabilities.

The first of these measures the impact on profit or loss for the year (for items recorded at fair value through profit or loss) and on members' balance (for available for sale investments) that would arise from a reasonably possible change in interest rates at the reporting date on financial instruments at the period end. The second of these measures the change in interest income or expense over the period of the year attributable to a reasonably possible change in interest rates, based on floating rate assets and liabilities held at the reporting date.

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 movements in these variables are non-linear.

19. RISK MANAGEMENT (continued)

	2016 £'000	2015 £'000
Interest Rate Risk		
Loss/(Profit) from 50 basis point increase	629	301
Loss/(Profit) from 50 basis point decrease	(570)	(298)
Impact of 50 basis point increase on net assets	(629)	(301)
Impact of 50 basis point decrease on net assets	570	298

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

20. POST BALANCE SHEET EVENTS

During 2017, the following amounts are proposed to be transferred to the personal reserve fund of Ariel Corporate Member Ltd.

	2016 £'000
2014 Year of Account	15,814

On 6 February 2017 the Argo group acquired the Ariel Re group, and on 7 February 2017 the Syndicate novated from Asta Managing Agency Ltd to Argo Managing Agency Limited, a company registered in England and Wales.