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MS Amlin Underwriting Limited

Syndicate 3210

Report and Accounts

31 December 2016

Contents

Directors and Administration

On 3 May 2016 the management of Syndicate 3210 was novated from Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited to MS Amlin Underwriting Limited. Details of both managing agents are provided below:

Current Managing Agent
MS Amlin Underwriting Limited

Directors

S C W Beale	Non-Executive
G A M Bonvarlet	Independent Non-Executive
P J Calnan	Independent Non-Executive
D Thornton	Independent Non-Executive
T C Clementi	Chief Executive Officer
M R Clements	
J A Collinson	
E C Graham	
R E Heppell	Chief Financial Officer
D G Peters	
M B Rodden	
M J Taffs	

Company Secretary
Frances Moule

Managing Agent's registered office
The Leadenhall Building, 122 Leadenhall Street
London EC3V 4AG

Managing Agent's registered number
2323018

Managing Agent until novation (3 May 2016)
Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited

Directors

J M P Taylor	Non-Executive Chairman
W A McKee	Chief Executive Officer Resigned 19 December 2016
M T Burke	
D A Casement	
C D Forbes	
K Fukuhara	
R E Heppell	
S Imayoshi	
P R Pearce	Resigned 30 April 2016
J W J Roome	Resigned 30 April 2016
J T Young	

Active Underwriter
G Rayner was active underwriter until 30 June 2016.

Company Secretary
D A Casement

Managing Agent's registered office
2nd Floor, 25 Fenchurch Avenue
London EC3M 5AD

Managing Agent's registered office
5965101

Registered Auditor
KPMG LLP
15 Canada Square
London
E14 5GL

Principal Bankers
Royal Bank of Scotland
PO Box 39952
2 ½ Devonshire Square
London
EC2M 4XJ

Citibank
Citigroup Centre
25 Canada Square
London
E14 5LB

Royal Bank of Canada
155 Wellington Street West
Toronto, ON
Canada
M5V 3L3

Investment managers
Sumitomo Mitsui Asset Management (London) Limited
Threadneedle Asset Management Limited
Union Bancaire Privée, UBP S.A. (London Branch)
Henderson Global Investors Limited
UBS Fund Management
Insight Investment Management
JPMorgan Asset Management

Principal securities custodians
Northern Trust
Citibank N.A.
Royal Bank of Canada

Report of the Directors of the Managing Agent

The directors of the managing agent, MS Amlin Underwriting Limited ("the Company"), present their annual report for Syndicate 3210 ("the Syndicate") for the year ended 31 December 2016.

On 1 February 2016 Amlin plc was acquired by Mitsui Sumitomo Insurance Company, Ltd and the ultimate parent became MS&AD Insurance Group Holdings, Inc. ("MSI").

The managing agent of the Syndicate changed on 3 May 2016 when the management of the Syndicate was novated from Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited to MS Amlin Underwriting Limited.

The Syndicate is, through intermediate holding companies, a wholly aligned Syndicate of MS Amlin plc (formerly Amlin plc).

The Syndicate ceased to write new business at 31 December 2016 and has entered run-off.

Change in Accounting Policy
As the Syndicate is now a wholly aligned Syndicate of MS Amlin plc, it has aligned certain of its accounting policies with those of Syndicate 2001, also a wholly aligned Syndicate of MS Amlin plc. The Syndicate changed its accounting policy for deferring acquisition costs. Previously the Syndicate included underwriting expenses within its deferred acquisition expenses; however the MS Amlin Group plc accounting policy does not include underwriting expenses within deferred acquisition costs. The impact of this is set out in note 17.

1. Strategic Report
Principal activity and review of the business
The principal activity of Syndicate 3210 remained the transaction of general insurance and reinsurance business in the United Kingdom. From 31 December 2016 the Syndicate is no longer underwriting new business and has entered run-off. The total premium income capacity of the Syndicate for each of the years of account open during 2016 was as follows:

	£m
2014 year of account	340
2015 year of account	340
2016 year of account	340

The result for calendar year 2016 is a loss of £27.6 million (2015 restated: profit of £58.2 million).

Underwriting contributed a loss of £38.1 million (balance on the technical account less allocated investment return) (2015 restated: £52.0 million profit) with the overall combined ratio increasing to 110.3% (2015 restated: 83.3%).

Net earned premiums increased by £30.7m to £342.7 million (2015: £312.0 million).

The underwriting profit includes deteriorations from reserves established in prior years of £31.9 million (2015: £52.9 million).

Investments (net of investment expenses) contributed returns of £9.4 million (2015: £3.3 million). Syndicate underwriting assets, held principally in bonds and cash, generated £7.8 million at a return of 1.4% (2015: £2.8 million and 0.5%). Corporate member capital contributed £1.5 million at a return of 1.4% (2015: £0.6 million and 0.6%).

The Non-technical account includes a foreign exchange gain of £1.1 million in 2016 (2015 restated: £2.8 million) arising from the translation of foreign currency net positions at closing rates of exchange.

Underwriting performance

	2016 £m	2015 £m
Gross written premiums	378.2	370.3
Net written premiums	323.1	327.3
Net earned premiums	342.7	312.0
Claims ratio %	69.0	44.2
Expense ratio %	41.3	39.1
Combined ratio %	110.3	83.3

Gross written premiums increased by £7.9 million (2015: £19.5 million), an increase of 2.2%. This was driven by planned growth in Accident and Health and D&O, within Property and Casualty (P&C). This more than offset reduced prior year income in Property and Marine.

The combined ratio increased to 110.3% from 83.3% in the prior year. The Syndicate's claims ratio increased to 69.0% (2015: 44.2%), reflecting adverse claims experience in Property and Casualty mainly due to a number of unrelated large risk losses.

In calculating the expense and combined ratios, personal expenses payable to the managing agency of £2.9 million (2015: £3.9 million) have been excluded.

Ogden change discount rate
On 27th February 2017, the Lord Chancellor announced the reduction in the discount rate which courts must consider when awarding compensation for future financial losses in the form of a lump sum in personal injury cases from 2.5% to minus 0.75%. The discount rate was last set in 2001 based on a three year average of real yields on Index Linked Gilts.

Since 2001, the real yields on Index Linked Gilts have fallen but the decision was made to continue to use the three year average of real returns on Index Linked Gilts as the basis for this compensation.

The announcement had a significant effect on the value of future claims for UK motor and liability insurance. The impact of the Ogden rate change for Syndicate 3210 was a £21.8 million increase to Gross IBNR and net impact of £12.0 million.

Report of the Directors of the Managing Agent (continued)

Strategic Business Units (SBU) Performance
Following the change in managing agent the business has been managed in two Strategic Business Units; Property and Casualty, and Marine and Aviation. This report analyses the underwriting performance under this structure.

It should be noted that included within the Syndicate result are certain group related activities which are unrelated to the performance of the SBU's and therefore are not included in the following SBU analysis. In addition integration costs of £9.2m and a £0.9m decrease in deferred acquisition costs arising from a change in accounting policy are excluded from the following SBU analysis

Marine and Aviation	2016 £m	2015 £m
Gross written premiums	125.1	133.0
Net written premiums	110.7	122.6
Net earned premiums	125.1	116.8
Claims ratio %	56.2	38.1
Expense ratio %	36.9	35.4
Combined ratio %	93.1	73.5

Marine and Aviation generated £125.1 million of gross written premium, a decrease on the prior year of £7.9 million. This was driven by lower than expected retention in certain Marine and Aviation classes and rate reductions in Aviation due to continuing adverse market conditions.

Outward reinsurance written premium increased to £14.4 million or 11.5% of gross written premium (2015: £10.5 million or 7.9%). The claims ratio increased to 56.2% (2015: 38.1%) as a consequence of 2 large cargo losses.

Property and Casualty	2016 £m	2015 £m
Gross written premiums	253.1	236.3
Net written premiums	212.4	202.9
Net earned premiums	217.5	192.5
Claims ratio %	76.8	51.4
Expense ratio %	40.6	41.6
Combined ratio %	117.3	93.1

Property and Casualty generated £253.1 million of gross written premium, an increase of £16.8 million on prior year. There was planned growth in Accident and Health and D&O which more than offset below prior year performance in Property.
Outward reinsurance written premium increased to £40.7 million or 16.1% of gross written premium (2015: £33.4 million or 14.1%).

The claims ratio has increased from 51.5% to 76.7% due to the impact of a £12.0 million increase in claims reserves arising from Ogden and a number of unrelated large risk losses.

Investment performance
The Syndicate produced an investment return of £9.4 million in the year (2015: £3.3 million). Syndicate underwriting assets, predominantly bonds and overseas deposits generated £7.8 million at a return of 1.4% (2015: £2.8 million and 0.5%). Corporate member capital contributed £1.5 million at a return of 1.4% (2015: £0.6 million and 0.6%).

The investment portfolio was transitioned across to be in line with the S2001 strategy throughout the latter half of 2016. This resulted in a shift across to the existing MS Amlin set of sub-advisors during December for the vast majority of S3210 assets. At the end of 2016 most of the S3210 assets were held within Bond and Money Market funds, as well as the existing Lloyds Overseas and Commingled funds. At the year-end there are still some FX positions but no futures or options as there had been throughout the year.

Global growth momentum improved in the latter part of 2016 and, importantly, this was the first synchronised expansion across North America, Asia and Europe in nearly a decade. Chinese stimulus measures in early 2016 and a stabilisation in oil prices provided a supportive backdrop to this expansion.

The improved macroeconomic outlook should provide support for property and equity market performance via higher rental or earnings growth. Fixed income yields are still very low when compared historically, despite recent increases. We expect bond yields to rise further and therefore continue to run asset durations lower than that of liabilities where appropriate. The principal risks and uncertainties of the business are addressed within the note 2 to the financial statements on pages 18-31.

2. Directors' Report

Future developments
The Syndicate ceased to underwrite new business at 31 December 2016 and has entered run-off. The 2016 year of account will be the final underwriting year. A run-off plan has been submitted to Lloyd's and is awaiting their approval following approval by the Company on 15 February 2017. It is expected that the 2016 and prior years of account will reinsure to close into Syndicate 2001 as at 31 December 2018, when the year will naturally close under the Lloyd's 3 year accounting basis. The business underwritten by the Syndicate is being renewed by Syndicate 2001 for its 2017 year of account.
The Syndicate has considerable financial resources to meet its financial needs and continues to manage its risks through an experienced team. The directors believe that the Syndicate is well positioned to manage its business risks successfully in the current economic environment as it enters run-off.

Report of the Directors of the Managing Agent (continued)

Disclosure of information to auditor
Each director at the date of the approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Syndicate's auditors are unaware, and
- 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 auditors are aware of that information.

The current directors of the managing agent are shown on page 2. Since 1 January 2016, the following changes to the Board of Directors have occurred:

Name	Date of Resignation
N J C Buchanan	3 May 16
C D Forbes	31 January 17
A W McKee	19 December 16
H Smeets-Flier	3 May 16
A P Springett	8 January 16
D G Turner	7 March 17

Name	Date of Appointment
P J Calnan	14 January 16
T C Clementi	11 November 16
J A Collinson	24 February 17
C D Forbes	15 March 16
R E Heppell	3 May 16
A W McKee	2 March 16
M B Rodden	7 January 16
J A Collinson	24 February 17

On 1 August 2016, T H Vero resigned as company secretary and F Moule was appointed.

After making 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.

Independent auditors
In accordance with Section 485 of the Companies Act 2006, a resolution proposing the re-appointment of KPMG LLP as auditor to the company will be put to the Annual General Meeting.

By order of the Board

T C Clementi

Chief Executive Officer

21 March 2017

Statement of Managing Agent's Responsibilities

The directors of the managing agent are responsible for preparing the Syndicate financial statements in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 requires the directors of the managing agent to prepare their Syndicate's financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Syndicate and of the profit or loss of the Syndicate for that period.

In preparing these financial statements, the directors of the managing agent are 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 financial statements; and
- prepare the financial statements on the basis that the Syndicate ceased to write new business from 1 January 2017 but will reinsure to close its 2016 and prior years of account into Syndicate 2001 on 31 December 2018 to provide a true and fair view

The directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the financial statements comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors of the managing agent are responsible for the maintenance and integrity of the Syndicate and financial information included on the Syndicate's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Member of Syndicate 3210

We have audited the financial statements of Syndicate 3210 for the year ended 31 December 2016, as set out on pages 8 to 43. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 members of the syndicate, 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 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 and 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 Directors' Responsibilities set out on page 6 the managing agent's directors are responsible for the preparation of the syndicate's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate's 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

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with UK 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 is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the 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.

Timothy Butchart (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square London,
E14 5GL
21 March 2017

Statement of Profit or Loss: Technical Account – General Business
For the year ended 31 December 2016

	Notes	2016 £'000	2016 £'000	2015 restated £'000	2015 restated £'000
Earned premiums, net of reinsurance					
Gross premiums written	3	378,235		370,288	
Outward reinsurance premiums		(55,104)		(43,020)	
			323,131		327,268
Change in the provision for unearned premiums					
Gross amount	12	18,200		(17,257)	
Reinsurers' share	12	1,362		2,035	
			19,562		(15,222)
Earned premiums, net of reinsurance			342,693		312,046
Allocated investment return transferred from the non-technical account	7		7,826		2,783
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(228,995)		(162,817)	
Reinsurers' share		12,068		16,739	
			(216,927)		(146,078)
Change in the provision for claims					
Gross amount	12-13	(73,481)		31,126	
Reinsurers' share	12-13	53,822		(23,028)	
			(19,659)		8,098
Claims incurred, net of reinsurance			(236,586)		(137,980)
Net operating expenses	4		(144,205)		(122,052)
Balance on the technical account – general business			**(30,272)**		**54,797**

All the amounts above are in respect of continuing operations.

The notes on pages 14 to 43 form part of these financial statements

Statement of Profit or Loss: Non-Technical Account
For the year ended 31 December 2016

	Notes	2016 £'000	2015 restated £'000
Balance on the technical account – general business		(30,272)	54,797
Investment income	7	6,138	5,047
Unrealised gains/(losses) on investments	7	2,695	(1,665)
Investment expenses and charges	7	(1,007)	(599)
Allocated investment return transferred to general business technical account	7	(7,826)	(2,783)
Gain on foreign exchange		1,101	2,878
Investment return on Funds in Syndicate	7	1,538	565
(Loss)/Profit for the financial year		**(27,633)**	**58,240**

There were no recognised gains and losses in the year other than those reported in the Statement of Profit or Loss and hence no Statement of Other Comprehensive Income has been presented.

All the amounts above are in respect of continuing operations.

The notes on pages 14 to 43 form part of these financial statements.

Balance Sheet – Assets
As at 31 December 2016

	Notes	2016 £'000	2015 restated £'000
ASSETS			
Investments			
Other financial investments	8	612,291	546,698
Reinsurers' share of technical provisions			
Provision for unearned premiums	12	16,207	13,147
Claims outstanding	12	127,141	63,864
		143,348	77,011
Debtors			
Arising out of direct insurance operations	9	119,760	113,425
Arising out of reinsurance operations	9	42,423	42,212
Other debtors	10	5,153	3,792
		167,336	159,429
Other assets			
Cash at bank and in hand	14	5,573	13,684
Prepayments and accrued income			
Deferred acquisition costs	12	59,150	49,120
Other prepayments and accrued income		26	3,302
		59,176	52,422
Total assets		**987,724**	**849,244**

The notes on pages 14 to 43 form part of these financial statements

Balance Sheet – Liabilities
As at 31 December 2016

	Notes	2016 £'000	2015 restated £'000
LIABILITIES			
Capital and reserves			
Member's balance		24,901	72,534
Technical provisions			
Provision for unearned premiums	12	246,000	231,733
Claims outstanding	12-13	665,759	524,170
		911,759	755,903
Creditors			
Arising out of direct insurance operations	9	2,694	2,408
Arising out of reinsurance operations	9	30,484	14,192
Other creditors including taxation and social security	11	17,799	3,663
Accruals and deferred income		87	544
		51,064	20,807
Total liabilities and equity		**987,724**	**849,244**

The financial statements on pages 8 to 43 were approved and authorised for issue by the Board of Directors of MS Amlin Underwriting Limited and signed on its behalf by:

R E Heppell
Chief Financial Officer

21 March 2017

The notes on pages 14 to 43 form part of these financial statements.

Statement of Changes in Member's Balances
For the year ended 31 December 2016

	Notes	2016 £'000	2015 restated £'000
Member's balances brought forward at 1 January		72,534	71,787
Impact of change in accounting policy on Deferred Acquisition Costs (DAC)	17	-	(11,493)
Restated balance at 1 January		72,534	60,294
(Loss)/Profit for the financial year		(27,633)	58,240
Payment of profit to member		(20,000)	(46,000)
Member's balance carried forward at 31 December		**24,901**	**72,534**

Members participate on Syndicates by reference to years of account and their ultimate result, assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year.

The notes on pages 14 to 43 form part of these financial statements.

Statement of Cash Flows

	Notes	2016 £'000	2015 restated £'000
Cash flows from operating activities			
(Loss)/Profit for the year		(27,633)	58,240
(Increase)/decrease in reinsurers share of technical provisions		(66,337)	19,148
(Increase) in deferred acquisition costs		(10,030)	(5,713)
(Increase) in debtors and prepayments		(4,630)	(17,837)
Increase/(Decrease) in gross technical provisions		155,856	(10,492)
Increase/(Decrease) in creditors		30,714	(4,048)
(Decrease) in accruals and deferred income		(458)	(2,775)
Investment return		(9,365)	(3,348)
Net cash inflow from operating activities		**68,117**	**33,175**
Cash flows from investing activities			
Acquisition of other financial instruments		(1,079,458)	(533,400)
Proceeds from sale of other financial instruments		1,015,902	553,655
Investment income received		7,287	5,857
Other		(1,017)	(955)
Net cash (outflow)/inflow from investing activities		**(57,487)**	**25,157**
Cash flows from financing activities			
Transfer to member in respect of underwriting participation		(20,000)	(46,000)
Net cash (outflow) from financing activities		**(20,000)**	**(46,000)**
Net (decrease)/increase in cash and cash equivalents		**(9,370)**	**12,332**
Cash and cash equivalents at 1 January	14	18,821	6,489
Cash and cash equivalents at 31 December	14	**9,451**	**18,821**

The notes on pages 14 to 43 form part of these Financial Statements.

Notes to the Financial Statements

1. Accounting policies

Basis of preparation

These financial statements have been prepared on a going concern basis, under the historical cost convention except for certain financial assets which are measured at their fair value, using the annual basis of accounting in accordance with Regulation 5 the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) ("the Regulations"), and in compliance with United Kingdom Accounting Standards including Financial Reporting Standard 102, "The Financial Reporting Standard Applicable in the UK and the Republic of Ireland" ("FRS 102") and Financial Reporting Standard 103, "Insurance Contracts" ("FRS 103"). FRS 102 and FRS 103 have been consistently applied to all years presented.

The managing agent's, MS Amlin Underwriting Limited registered address is The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AG.

Change in accounting policy

The Syndicate changed its accounting policy for deferring acquisition costs to align with the accounting policy of the MS Amlin plc group. Previously the Syndicate included underwriting expenses within its deferred acquisition expenses; however the MS Amlin Group plc accounting policy does not include underwriting expenses within deferred acquisition costs. The effects of removing the underwriting expenses can be seen in note 17.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with FRS 102 and FRS 103 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Syndicate's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below. The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

Insurance contract liabilities
The most significant estimate made in the financial statements relates to unpaid insurance claim reserves and related loss adjustment expenses of the Syndicate.

Unpaid claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed. Any changes to the amounts held are adjusted through the statement of profit or loss.

The Syndicate applies an actuarial-led reserving process, based on an actuarial best estimate plus an explicit management margin, which reflects the risk premium relating to the uncertainty of the actual level of claims incurred.

Although it is possible that claims could develop and exceed the reserves carried, there is therefore a reasonable chance of release of reserves from one year to the next. The estimated provision for the total level of claims incurred changes as more information becomes known about the actual losses for which the initial provisions were set up. The change in claims costs for prior period insurance claims represents the claims development of earlier reported years incurred in the current accounting period. The carrying value of the Syndicate's net outstanding claims reserves at 31 December 2016 is £538.6 million (2015: £460.3 million).

Insurance contract premium
Gross written premium is recognised on insurance contracts incepting during the financial year and includes an estimate of the total premium expected to be received under each contract. Revenue recognised on policies written through contracts with third parties, such as binding authorities and line slips, is deemed to be written in full at the inception of such contracts and therefore this estimate is particularly judgemental. Adjustments to estimates from previous years are included in the reported premium.

Notes to the Financial Statements (continued)

Product classification
Insurance contracts are defined as those containing significant insurance risk if, and only if, an insured event could cause an insurer to make significant additional payments in any scenario, excluding scenarios that lack commercial substance, at the inception of the contract.

Contracts entered into by the Syndicate with reinsurers under which the Syndicate is compensated for losses on contracts issued by the Syndicate and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. Insurance contracts underwritten by the Syndicate under which the contract holder is another insurer (inwards reinsurance) are included within insurance contracts.

Based on the current assessment, all of the products underwritten by the Syndicate are insurance contracts within the scope of FRS 103.

Financial assets and financial liabilities
The Company uses pricing vendor sources in determining the fair value of financial assets and financial liabilities. Depending on the methods and assumptions used (for example, in the fair valuation of Level 2 financial assets), the fair valuation of financial assets and financial liabilities can be subject to estimation uncertainty. Details of these methods and assumptions are described in note 2. The carrying values of the Syndicate's financial assets at 31 December 2016 are £612.3 million (2015: £546.7 million).

Significant accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the current and prior years.

Insurance contracts premiums
Gross premiums written comprise contracts commencing in the financial year, together with any differences between booked premiums for the prior years and those previously accrued, and estimates of premiums due but not yet receivable or notified to the Syndicate. All premiums are shown gross of commission payable to intermediaries and exclude any taxes or duties based on premiums.

Premiums are disclosed before the deduction of brokerage and taxes or duties levied on them when these are payable by the Syndicate. Estimates are included for premiums receivable after the period end but not yet notified. Outward reinsurance premium is accounted for in the same accounting period as the related insurance or inward reinsurance business.

Premium is recognised as earned based on the policy contract period. The earned element is calculated on a basis where the premium is apportioned over the period of risk. For premium written under facilities, the earned element is calculated based on the estimated inception date and coverage period of the underlying contracts.

The proportion of premiums written, gross of commission payable, attributable to periods after the balance sheet date is deferred as a provision for unearned premiums. The change in this provision is taken to the income statement in order that revenue is recognised over the period of the risk. Under FRS 103, unearned premium are monetary liabilities. These are therefore valued at closing exchange rate at the reporting period and any foreign currency gains or losses are recognised in the statement of profit or loss.

Acquisition costs
Acquisition costs comprise brokerage and commissions incurred on insurance contracts written during the financial year. They are incurred on the same basis as the earned proportions of the premiums they relate to. Deferred acquisition costs are amortised over the period in which the related revenues are earned. Deferred acquisition costs are reviewed at the end of each reporting period and are impaired where they are no longer considered to be recoverable out of future margins in the related revenues. Under FRS 103, deferred acquisition costs are monetary assets. These are therefore valued at closing exchange rate at the reporting period and any foreign currency gains or losses are recognised in the statement of profit or loss.

Reinsurance premiums ceded
Reinsurance premium ceded comprise premium on reinsurance arrangements bought which incept during the financial year, together with adjustments to premium ceded in previous accounting years. The proportion of reinsurance premium ceded attributable to periods after the reporting date is deferred as reinsurers' share of unearned premium. Reinsurance premium ceded is earned over the policy contract period in accordance with the terms of the reinsurance contract.

Unearned premiums
The provision for unearned premiums comprises the amounts representing that part of gross premiums written and outwards reinsurance premiums that relate to unexpired terms of policies

Notes to the Financial Statements (continued)

in force at the balance sheet date. The provision is calculated using a time apportionment method.

Insurance contracts liabilities: claims
Claims paid are defined as those claims transactions settled up to the balance sheet date including the internal and external claims settlement expenses allocated to those transactions.

The reinsurers' share represents recoveries received from reinsurance protections in the period plus recoveries receivable against claims paid that have not been received at the balance sheet date, net of any provision for bad debt. Where applicable, deductions are made for salvage and other recoveries.

Claims reserves are estimated on an undiscounted basis. Provisions are subject to a detailed quarterly review where forecast future cash flows and existing amounts provided are reviewed and reassessed.

Any changes to the amounts held are adjusted through the income statement. Provisions are established above an actuarial best estimate so there is a reasonable chance of release from one underwriting year to the next.

Unpaid claims reserves are made for known or anticipated liabilities under insurance contracts which have not been settled up to the reporting date. Included within the provision is an allowance for the future costs of settling those claims. This is estimated based on past experience and current expectations of future cost levels.

The unpaid claims reserves also includes, where necessary, a reserve for unexpired risks where, at the reporting date, the estimated costs of future claims and related deferred acquisition costs are expected to exceed the unearned premiums provision. In determining the need for an unexpired risk provision the underwriting divisions within the Syndicate have been regarded as groups of business that are managed together.

Some insurance contracts permit the Syndicate to sell (usually damaged) property acquired in settling a claim (for example, salvage). The Syndicate may also have the right to pursue third parties for payment of some or all costs (for example, subrogation). Estimates of salvage recoveries and subrogation reimbursements are included as allowances in the measurement of the insurance liability for unpaid claims, and recognised in insurance and reinsurance receivables when the liability is settled.

Although the claims provision is considered to be reasonable, having regard to previous claims experience (including the use of certain statistically based projections) and case by case reviews of notified losses, on the basis of information available at the date of determining the provision, the ultimate liabilities will vary as a result of subsequent information and events. These adjustments are reflected in the financial statements for the period in which the related adjustments are made.

Reinsurance recoveries
The benefits to which the Syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers, as well as longer-term receivables that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Where there is objective evidence that a reinsurance asset is impaired, the carrying amount of the reinsurance asset is reduced to its recoverable amount and recognises that impairment loss in the statement of profit or loss

Financial assets
The Syndicate's financial assets are classified at fair value through profit and loss (FVPL). This classification requires all fair value changes to be recognised immediately within the investment return line in the statement of profit or loss.

Within the FVPL category, fixed income securities, equity securities, property funds and certain derivatives are classified as 'trading' as the Syndicate buys with the intention to resell.

All other assets at FVPL are classified as 'other than trading' within the FVPL category as they are managed and their performance is evaluated on a FVPL basis.

Notes to the Financial Statements (continued)

Purchases and sales of investments are recognised on the trade date, which is the date the Syndicate commits to purchase or sell the assets. These are initially recognised at fair value, and are subsequently re-measured at fair value based on quoted bid prices. Transaction costs are recognised directly in the statement of profit or loss when incurred. Changes in the fair value of investments are included in the statement of profit or loss in the year in which they arise. The uncertainty around valuation is discussed further in note 8.

Derivative financial instruments
Derivative financial instruments primarily include currency forwards. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. They are subsequently measured at fair value, with their fair values obtained from quoted market prices or, where these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. Changes in the fair value of derivative instruments are recognised immediately in the statement of profit or loss.

Investment return
The investment return comprises investment income, investment gains less losses, and is net of investment expenses and charges.

Realised gains or losses are calculated as the difference between the net sales proceeds and their purchase price in the financial year or their valuation at the commencement of the year. Unrealised gains and losses are calculated as the difference between the valuation of investments at the balance sheet date and their purchase price in the financial year or their valuation at the commencement of the year.

All of the investment return arising in the year is reported initially in the non-technical account. A transfer is then made from the non-technical account to the technical account to reallocate investment return relating to underwriting assets.

Taxation
No provision has been made in respect of UK income tax on trading income. It is the responsibility of the member to settle their tax liabilities. Overseas taxation comprises US Federal Income tax and Canadian Federal Income tax. The amounts charged to the member are collected centrally through Lloyd's Members' Services Unit as part of the member's distribution process.

The ultimate tax liability is the responsibility of the underwriting member. 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

Foreign Currencies

(a) Functional and presentation currency
Items included in the financial statements of the Syndicate are measured using the currency of the primary economic environment in which the Syndicate operates ('the functional currency'). The financial statements are presented in 'Pounds Sterling' (£), which is also the Syndicate's functional currency.

(b) Transactions and balances
Transactions denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities are translated at the rates of exchange at the reporting date (Insurance balances are considered to be monetary assets). Non-monetary assets and liabilities are translated at the rate prevailing in the year in which the asset or liability first arose or, where such items are revalued, at the latest valuation date. Exchange differences are recognised within the 'non-technical account'.

Loans and receivables
Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of profit or loss when there is evidence that the asset is impaired. These are reversed when the triggering event that caused the impairment is reversed.

Other payables
Other payables are initially recognised at fair value and subsequently measured at amortised cost. They represent liabilities to pay for goods or services that have been received or supplied in the normal course of business, invoiced by the supplier before the year end, but for which payment has not yet been made.

Notes to the Financial Statements (continued)

Insurance debtors and creditors
In the normal course of business, for the majority of contracts, settlement is required to be made with Lloyd's Central Accounting, the market settlement bureau, on the basis of the net balance due to or from insurance brokers in total rather than the amounts due to or from the individual parties which they represent. The legal status of this practice of net settlement is uncertain and in the event of an insolvency it is generally abandoned.

Accordingly, insurance debtors and creditors, as presented, in respect of both Lloyd's Central Accounting settled business and business that is settled direct with brokers and service companies comprise respectively the totals of all the Syndicate's individual outstanding debit and credit transactions before any offset. The resultant totals give no indication of future net cash flows

Syndicate operating expenses
Prior to novation on 3 May 2016, the managing agency of the Syndicate was Mitsui Sumitomo Insurance Underwriting at Lloyd's and following novation the managing agency is MS Amlin Unerwriting Limited. Costs incurred by the respective managing agents exclusively for the Syndicate are charged to the Syndicate on an accruals basis.

Expenses incurred jointly by the respective managing agents and the Syndicate are charged to the Syndicate and reflect the costs of services provided and does not include any profit element. The respective managing agents charge a further management fee of 0.2% of syndicate capacity.

Pension costs
Mitsui Sumitomo Insurance (London) Management Limited (the immediate parent company of MSI Corporate Capital Limited), operates a defined contribution pension scheme. Prior to 3 May 2016 a number of members of staff whose costs were recharged to the Syndicate were members of this pension scheme. On 3 May 2016 all relevant staff were novated to become members of a defined contribution pension scheme operated by MS Amlin Corporate Services Limited. Pension contributions relating to Syndicate staff are charged to the Syndicate as incurred and are included within net operating expenses.

2. Risk and capital management

The Board of Directors of the Managing Agent (the Board) recognises that the effective management of risk is essential for the Syndicate to achieve its objectives. The Syndicate's risk management framework provides the structure through which the Syndicate identifies, assesses, controls, monitors and reports the risks posed to the achievement of its corporate objectives. It facilitates the timely and efficient flow of risk information between business functions and senior management, allowing appropriate decisions to be made at all levels of the organisation, thereby enabling the effective management of risk.

The Board, with support from the Risk Committee, oversees the risk management framework and monitors the Syndicate's risk profile at risk category level (e.g. insurance risk). Oversight of specific risks (as detailed on the Syndicate's risk register) is delegated to the relevant Standing Committees. In order to discharge their duties, the Board and Standing Committees receive regular risk reports that summarise the Syndicate's risk profile.

A suite of policies articulate the risk management framework. These identify and analyse the risks faced by the Syndicate and set appropriate risk limits and controls.

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

2(a) Underwriting risk

The Syndicate accepts underwriting risk in a range of classes of business and there is a balance between long and short tail business.

In underwriting insurance or reinsurance policies the underwriters use their skill and knowledge to assess each risk. Exposure information and data on past claims experience is used to evaluate the likely claims cost and therefore the premiums that should be sufficient (across a portfolio of risks) to cover claims costs, expenses and to produce an acceptable profit. However, due to the nature of insurance risk there is no guarantee that the premiums charged will be sufficient to cover claims costs. This shortfall may originate either from insufficient premiums being calculated and charged or result from an unexpected, or unprecedented, high level of claims.

Notes to the Financial Statements (continued)

A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. Progress against this plan is monitored during the year. These can be exceeded in exceptional circumstances but only with the approval of senior management. For larger sum insured risks reinsurance coverage may be purchased. The managing agent uses line guides that determine the maximum liability per policy that can be written for each class (on a gross or net of facultative reinsurance basis) by each underwriter. The Syndicate is also exposed to catastrophe losses which may impact many risks in a single event. Reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in section 2(e).Insurance liabilities are written through individual risk acceptances or through facilities whereby the Syndicate is bound by other underwriting entities. Facility arrangements delegate underwriting authority to other underwriters, or to agents acting as coverholders, that use their judgement to write risks on the Syndicate's behalf under clear authority levels.

The insurance liabilities underwritten by the Syndicate are reviewed on an individual risk, or contract, basis and through review of portfolio performance. All claims arising are reserved upon notification. Each quarter the entire portfolio of business is subject to a reserving process whereby levels of paid and outstanding (advised but not paid) claims are reviewed. Potential future claims are assessed with a provision for incurred but not reported (IBNR) claims being made. Whilst a detailed and disciplined exercise is carried out to provide for claims notified, it is possible that known claims could develop and exceed the reserves carried.

Furthermore, there is increased uncertainty in establishing an accurate provision for IBNR claims and there is a possibility that claims may arise which, in aggregate, exceed the reserve provision established. This is partly mitigated by the reserving policy adopted by the Syndicate which is to carry reserves in excess of the mean actuarial best estimate.

The review of claims arising may result in underwriters adjusting pricing levels to cater for an unexpectedly higher trend of claims advices or payments. However, this may not be possible in a competitive market and underwriters may respond either by accepting business with lower expected profit margins or declining to renew policies and thus reducing income. Also, there is a portfolio of risk already underwritten which cannot be re-priced until renewal at the end of the policy period.

The Syndicate is exposed to the impact of large catastrophe events such as windstorms, earthquakes or terrorist incidents. Exposure to such events is controlled and measured through loss modelling. It is possible that a catastrophe event could exceed the maximum expected event loss. This is particularly the case for the direct property proportion of the loss exposure, where models are used to calculate a damage factor representing the amount of damage expected to exposed aggregate insured values from a particular scenario. Errors, or incorrect assumptions in the damage factor calculation, can result in incurred catastrophe event claims higher, or lower, than predicted due to unforeseen circumstances, inadequacies in data, or shortcomings in the models used.

Notes to the Financial Statements (continued)

2(a) Insurance risk (continued)

Concentration of insurance risk

The table below details the Syndicate's risk exposures by geographical region and class of business.

2016	Gross Premiums Written £'000	Outward RI Premiums £'000	Net Premiums Written £'000
United Kingdom	68,703	(10,009)	58,694
Other EU countries	16,983	(2,474)	14,509
USA	4,605	(671)	3,934
Other	287,944	(41,950)	245,994
	378,235	**(55,104)**	**323,131**

2015	Gross Premiums Written £'000	Outward RI Premiums £'000	Net Premiums Written £'000
United Kingdom	61,094	(7,098)	53,996
Other EU countries	22,274	(2,588)	19,686
USA	5,759	(669)	5,090
Other	281,161	(32,665)	248,496
	370,288	**(43,020)**	**327,268**

2016	Gross Premiums Written £'000	Outward RI Premiums £'000	Net Premiums Written £'000	Net Technical Provisions £'000
Fire and other damage to property	78,491	(18,447)	60,044	97,967
Third party liability	120,439	(11,247)	109,192	271,519
Motor - other	-	-	-	2,810
Marine, aviation and transport	93,043	(10,610)	82,433	158,299
Reinsurance accepted	86,262	(14,800)	71,462	178,666
	378,235	**(55,104)**	**323,131**	**709,261**

2015 restated	Gross Premiums Written £'000	Outward RI Premiums £'000	Net Premiums Written £'000	Net Technical Provisions £'000
Fire and other damage to property	79,083	(14,322)	64,761	95,648
Third party liability	95,902	(7,195)	88,707	216,549
Motor - other	10	121	131	4,466
Marine, aviation and transport	99,575	(7,422)	92,153	139,654
Reinsurance accepted	95,718	(14,202)	81,516	173,455
	370,288	**(43,020)**	**327,268**	**629,772**

Net technical provisions include deferred acquisition costs.

Notes to the Financial Statements (continued)

2(a) Insurance risk (continued)

Sensitivity to insurance risk – Claims reserving and IBNR

Insurance liabilities and reinsurance assets: Calculation of incurred but not reported (IBNR) and claims development

The Syndicate adopts a rigorous process in the calculation of an adequate provision for insurance claim liabilities. The overriding aim is to establish reserves which are expected to be at least adequate and that there is consistency from year to year. Therefore, the reserves are set at a level above the mean actuarial "best estimate" position. However, there is a risk that, due to unforeseen circumstances, the reserves carried are not sufficient to meet insurance claim liabilities reported in future years on policy periods which have expired.

Process and methodology

The reserving process commences with the proper recording and reporting of claims information which consists of paid and notified or outstanding claims. For the London market business information is received through the London market bureau. Claims records are maintained for each policy and class. For notified or outstanding claims, a case reserve is established based on the views of underwriting management and claims managers, using external legal or expert advice where appropriate. This reserve is expected to be sufficient to meet the claim payment when it is finally determined. For some classes of business, particularly liability business, settlement may be several years after the initial notification of the claim, as it may be subject to complexities or court action. For claims received from the London Market Bureau, the market reserve is generally set by the lead underwriter, but there are circumstances on larger claims where the Syndicate will post higher reserves than those notified.

To assist with the process of determining the reserves, triangulation statistics for each class are produced which show the historical development of premium, as well as paid and incurred losses, for each underwriting year. In all cases, the different potential development of each class of business is fully recognised. The development period varies by class, by method of acceptance and is also determined by the deductible of each policy written. For casualty business, the policy form will determine whether claims can be made on a claims made (as advised) or on a losses occurring (determined by date of loss) basis. This has a significant impact on the reporting period in which claims can be notified.

IBNR

To establish a provision for IBNR claims, the actuarial team uses their experience and knowledge of the classes of business to estimate the potential future development of the incurred claims for each class for each underwriting year. This is known as the 'best estimate'. In setting the IBNR provision, estimates are made for the ultimate premium and ultimate gross claims value for each underwriting year. Allowance is then made for anticipated reinsurance recoveries to reach a net claim position. Reinsurance recoveries are calculated for outstanding and IBNR claims, sometimes through the use of historical recovery rates or statistical projections, and provisions are made as appropriate for bad debt or possible disputes. The component of ultimate IBNR provision estimates and reinsurance recoveries that relates to future events occurring to the existing portfolio is removed in order to reflect generally accepted accounting practice. Meetings are initially held for each business unit in which underwriters and actuaries discuss the initial proposed estimates and revise them if it is felt necessary. At the next round of meetings, management discuss reserving issues with the actuaries and underwriters and challenge the proposed estimates. At this meeting, management propose the 'margin' for risk to be added to the best estimate, assisted by diagnostics produced from the internal model. The margin is proposed on a net of reinsurance basis only. Further meetings are then held at which further review and challenge is provided by central teams, led by the Risk function.

Areas of uncertainty

The reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR claims. The impact on profit of a 5% improvement/deterioration in the net incurred claims ratio would be £17.1 million gain/loss (2015: £15.6 million), as shown below:

Notes to the Financial Statements (continued)

2(a) Insurance risk (continued)

Sensitivity to insurance risk (continued)

Net Incurred Claims (NIC)	Fire and other damage to property £'000	Third party liability £'000	Motor - other £'000	Marine aviation & transport £'000	Re-insurance accepted £'000	Total £'000
2016						
5% increase in NIC %	(3,331)	(4,832)	(-)	(4,726)	(4,246)	**(17,135)**
5% decrease in NIC %	3,331	4,832	-	4,726	4,246	**17,135**
2015						
5% increase in NIC %	(3,058)	(4,111)	(6)	(4,199)	(4,228)	**(15,602)**
5% decrease in NIC %	3,058	4,111	6	4,199	4,228	**15,602**

Large loss case reserves are determined through careful analysis of the individual claim, often with the advice of lawyers.

Property catastrophe claims, such as earthquake or hurricane losses can take several months or years, to develop as adjusters visit damaged property and agree claim valuations. Until all the claims are settled it requires an analysis of the area damaged, contracts exposed and the use of models to simulate the loss against the portfolio of exposure in order to arrive at an estimate of ultimate loss to the Syndicate. There is uncertainty over the adequacy of information and modelling of major losses for a period that can range from several months to a number of years after a catastrophe loss. Account should also be taken of factors which may influence the size of claims such as increased repair cost inflation or a change in law.

The long tail liability classes represent the most difficult classes to project because often claims are notified and settled several years after the expiry of the policy concerned. This is particularly the case for liability business written on a losses occurring basis.

The use of historical development data is fundamental to reserving these classes. It is used in conjunction with the advice of lawyers and third party claims adjusters on material single claims. Known changes to wordings or the claims environment are also considered.

2(b) Financial risk management

The following section describes the Syndicate's investment risk management from a quantitative and qualitative perspective.

The Syndicate has two main categories of assets:

- Underwriting assets – premium received and held to meet future insurance claims.
- Capital assets – capital required by Lloyd's to support the underwriting business. These represent funds deposited by MSI Corporate Capital Limited as Funds in Syndicate (FIS).

Investment Governance

The managing agent manages the Syndicate's investments in accordance with the investment framework that is set by the Board of the managing agent. This framework determines investment governance and the investment risk tolerance. It is reviewed on a regular basis to ensure that the Board's fiduciary and regulatory responsibilities are being met. Day-to-day management of the investments is delegated to the Investment Management Executive or members of the relevant subsidiary's executive, who are advised by the Chief Investment Officer.

Notes to the Financial Statements (continued)

2(b) Financial risk management (continued)

The Investment Management Executive comprises the MS Amlin Group Chief Executive, Chief Finance & Operations Officer and Chief Investment Officer, and meets quarterly to consider whether the strategic asset allocation and tactical asset allocation ranges are appropriate to optimise investment returns within the risk tolerances set by the Boards. The Investment Team, led by the Chief Investment Officer, is responsible for tactical asset allocation and the appointment of external investment managers and custodians.

Risk Tolerance

Investment risk tolerances are set by the Board. The investment process is driven from the risk tolerance which is determined by reference to factors such as the underwriting cycle and the requirements of the capital providers. In a hard underwriting market capital preservation is paramount in order to support the insurance business and, therefore, the risk tolerance for the capital assets will be low. Conversely, the risk tolerance for the underwriting assets under these circumstances will be relatively high due to the strong cash flow. In a soft underwriting market the opposite applies.

Investment risk is monitored by the Investment Team using a market-recognised third-party risk model. Risk reporting is generated by the Investment Team and an independent review conducted by the Risk function. These reports are then circulated to the Investment Management Executive, the Executive, Audit and Risk Committees.

Investment management

Investments are run on a multi-asset, multi-manager basis. Exposure to the asset classes is achieved using physical holdings of the asset class or derivative instruments and may be managed by the Investment Team or by outsourced managers, on a segregated, pooled or commingled basis. Manager selection is based on a range of criteria that leads to the expectation that they will add value to the funds over the medium to long-term. The managers have discretion to manage the funds on a day-to-day basis within investment guidelines or prospectuses applicable to their funds that ensure that they comply with the investment frameworks. The managers' performance, compliance and risk are monitored on an ongoing basis.

Credit risk

Credit risk is the risk that the Syndicate becomes exposed to loss if a specific counterparty fails to perform its contractual obligations in a timely manner impacting the Syndicate's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. The Syndicate is exposed to credit risk in its investment portfolio and with its premium and reinsurance debtors.

Notes to the Financial Statements (continued)

2(b) Financial risk management (continued)

2016	AAA £'000	AA £'000	A £'000	<A £'000	Not rated £'000	Total £'000
Other financial investments:						
Debt securities and other fixed income	30,490	9,619	5,053	5,104	-	**50,266**
Hedge funds	-	-	-	-	4,718	**4,718**
Holdings in collective investment schemes	332,717	61,805	73,584	27,662	-	**495,768**
Participation in investment pools	38,029	5,122	4,384	1,955	-	**49,490**
Regulatory deposits	-	-	-	-	4,788	**4,788**
Deposits with credit institutions	-	-	7,036	-	-	**7,036**
Derivative Financial Assets	-	-	-	225	-	**225**
Reinsurers' share of outstanding claims including IBNR	-	39,726	83,644	3,771	-	**127,141**
Debtors arising out of direct insurance operations	-	-	-	-	119,760	**119,760**
Debtors arising out of reinsurance operations	-	-	-	-	42,423	**42,423**
Cash at bank and in hand	-	129	-	5,444	-	**5,573**
Other debtors	-	-	-	-	5,153	**5,153**
	401,236	**116,401**	**173,701**	**44,161**	**176,842**	**912,341**

2015	AAA £'000	AA £'000	A £'000	<A £'000	Not rated £'000	Total £'000
Other financial investments:						
Debt securities and other fixed income	104,490	158,479	89,434	46,437	-	**398,840**
Hedge funds	-	-	-	-	28,497	**28,497**
Holdings in collective investment schemes	8,001	12,606	1,951	1,244	9,585	**33,387**
Participation in investment pools	28,245	1,347	3,907	546	-	**34,045**
Regulatory deposits	-	-	-	-	5,059	**5,059**
Deposits with credit institutions	-	-	46,870	-	-	**46,870**
Reinsurers' share of outstanding claims including IBNR	-	18,531	42,332	3,001	-	**63,864**
Debtors arising out of direct insurance operations	-	-	-	-	113,425	**113,425**
Debtors arising out of reinsurance operations	-	-	-	-	42,212	**42,212**
Cash at bank and in hand	-	1,069	3	12,612	-	**13,684**
Other debtors	-	-	-	-	3,792	**3,792**
	140,736	**192,032**	**184,497**	**63,840**	**202,570**	**783,675**

Notes to the Financial Statements (continued)

2(b) Financial risk management (continued)

Insurance and reinsurance
The table on page 24 includes premium receivables, representing amounts due from policyholders. The quality of these receivables is not graded, but based on historical experience there is limited default risk relating to these amounts. Credit risk in respect of premium debt is overseen by the Group Credit Risk Team and managed through a number of controls that include broker financial review, internal rating of brokers and regular chasing and monitoring of premium settlement performance. This includes the escalation of material issues to underwriters and management as appropriate.

Also included are reinsurance receivables, which represent the amounts due at 31 December 2016, as well as amounts, expected to be recovered on unpaid outstanding claims (including IBNR) in respect of earned risks. These are stated net of provisions for impairment. The credit risk in respect of reinsurance receivables, including reinsurers' share of outstanding claims, is primarily managed by review and approval of reinsurance security by the Reinsurance Security Committee prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on the internal ratings for each reinsurer and Standard & Poor's ratings. The Syndicate holds collateral from certain reinsurers including those that are non-rated as security against potential default. Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer. The impact on profit before tax of a 1% variation in the reinsurance assets would be £1.3 million (2015: £0.6 million).

Investments
As well as actual failure of a counterparty to perform its contractual obligations, the price of corporate bond holdings will be affected by investors' perception of a borrower's credit worthiness. Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies.

At 31 December 2016, investments amounted to £612.3 million (2015: £546.7 million). The credit ratings on debt securities are based on Standard & Poor's, Moody's and Fitch.

Notes to the Financial Statements (continued)

2(b) Financial risk management (continued)

2016	Debtors arising out of direct insurance operations £'000	Debtors arising out of reinsurance operations £'000
Overdue but not impaired financial assets:		
Overdue by:		
0 to 3 months	14,612	-
3 to 6 months	3,661	49
6 to 12 months	2,845	21
12 to 18 months	1,105	-
Overdue but not impaired financial assets	**22,223**	**70**
Impaired financial assets	1,661	8
Gross value of overdue and impaired financial assets	**23,884**	**78**
Neither overdue nor impaired financial assets	97,537	42,353
Net carrying value	**119,760**	**42,423**

2015	Debtors arising out of direct insurance operations £'000	Debtors arising out of reinsurance operations £'000
Overdue but not impaired financial assets:		
Overdue by:		
0 to 3 months	13,071	-
3 to 6 months	2,359	63
6 to 12 months	2,193	157
12 to 18 months	506	118
Overdue but not impaired financial assets	**18,129**	**338**
Impaired financial assets	3,850	172
Gross value of overdue and impaired financial assets	**21,979**	**510**
Neither overdue nor impaired financial assets	95,296	41,874
Net carrying value	**113,425**	**42,212**

Impaired assets are carried at nil value.

All other financial assets are neither overdue nor impaired.

Notes to the Financial Statements (continued)

2(b) Financial risk (continued)

Liquidity risk

It is important to ensure that claims are paid as they fall due. Levels of cash are therefore managed on a daily basis and buffers of liquid assets are also held in excess of the immediate requirements. This is to reduce the risk of being forced sellers of any of the Syndicate's assets, which may result in realising prices below fair value, especially in periods of below normal investment market activity. The policy of limiting the extent of duration divergence between the policyholders' assets and the liabilities helps to reduce the risk of a cash flow mismatch.

The following table indicates the contractual timing of cash flows arising from assets and liabilities for management of insurance contracts at 31 December 2016:

2016			**Undiscounted net cash flows**			
	Carrying amount £'000	**Total cash flows £'000**	**Up to 1 year £'000**	**1 -3 years £'000**	**3-5 years £'000**	**Over 5 years £'000**
Assets						
Other financial investments						
Debt securities and other fixed income	**50,266**	**60,929**	1,655	28,827	21,948	8,499
Hedge funds	**4,718**	**4,718**	4,718	-	-	-
Holdings in collective investment schemes	**495,768**	**495,768**	495,768	-	-	-
Participation in investment pools	**49,490**	**52,710**	752	41,183	8,858	1,917
Regulatory deposits	**4,788**	**4,788**	-	-	-	4,788
Deposits with credit institutions	**7,036**	**7,036**	7,036	-	-	-
Derivatives	**225**	**225**	225	-	-	-
Insurance and reinsurance receivables	**162,183**	**162,183**	161,939	244	-	-
Cash at bank and in hand	**5,573**	**5,573**	5,573	-	-	-
Technical provisions	**127,141**	**127,141**	55,994	35,627	19,329	16,191
	907,188	**921,071**	733,660	105,881	50,135	31,395
Liabilities						
Technical provisions	**665,759**	**665,759**	266,187	215,956	99,379	84,237
Insurance and reinsurance creditors	**33,178**	**33,178**	33,178	-	-	-
	698,937	**698,937**	**299,365**	**215,956**	**99,379**	**84,237**

Notes to the Financial Statements (continued)

2(b) Financial risk (continued)

Liquidity risk (continued)

2015 restated			Undiscounted net cash flows			
	Carrying amount £'000	Total cash flows £'000	Up to 1 year £'000	1 -3 years £'000	3-5 years £'000	Over 5 years £'000
Assets						
Other financial investments						
Debt securities and other fixed income	**398,840**	**414,740**	189,782	125,908	77,530	21,520
Hedge funds	**28,497**	**28,497**	28,497	-	-	-
Holdings in collective investment schemes	**33,387**	**34,494**	24,626	5,952	3,829	87
Participation in investment pools	**34,045**	**34,901**	20,085	14,172	183	461
Regulatory deposits	**5,059**	**5,059**	-	-	-	5,059
Deposits with credit institutions	**46,870**	**46,870**	46,870	-	-	-
Insurance and reinsurance receivables	**155,637**	**155,637**	155,446	191	-	-
Cash at bank and in hand	**13,684**	**13,684**	13,684	-	-	-
Technical provisions	**126,131**	**126,131**	77,539	28,261	12,361	7,970
	842,150	**860,013**	**556,529**	**174,484**	**93,903**	**35,097**
Liabilities						
Technical provisions	**755,903**	**755,903**	411,740	192,851	78,893	72,419
Insurance and reinsurance creditors	**16,600**	**16,600**	16,600	-	-	-
	772,503	**772,503**	**428,340**	**192,851**	**78,893**	**72,419**

Market risk

Market risk concerns the risks associated with valuation, interest rates, liquidity and counterparty credit. Foreign exchange risk is described on page 29.

Valuation risk

The Syndicate's earnings are directly affected by changes in the valuations of the investments held in the portfolios. These valuations vary according to the movements in the underlying markets. The Syndicate's assets are marked to market at bid price. Prices are supplied by the custodians, whose pricing processes are covered by their published annual audits. In accordance with their pricing policies, prices are sourced from market recognised pricing vendor sources. These pricing sources use closing trades, or where more appropriate in illiquid markets, pricing models.

The managing agent operates an established control framework with respect to fair value measurement which ensures the valuation of financial assets and financial liabilities meets the requirements of FRS 102. As part of this process, the managing agent reviews the valuation policies of the Syndicate's custodians along with the evidence provided by the custodians to support fair value measurement. The prices are also reconciled to the fund managers' records to check for reasonableness.

As an additional level of governance over pricing, the managing agent validates the prices provided by pricing vendor sources against information obtained from Bloomberg where available. Further details of the fair value measurement of financial assets and financial liabilities are included in note 8.

Notes to the Financial Statements (continued)

2(b) Financial risk (continued)

Foreign exchange risk

The Syndicate's functional and presentation currency is Sterling. The Syndicate holds assets and liability balances in major base currencies of Sterling, Euros, US dollars, Australian dollars and Canadian dollars, which represent the majority of the Syndicate's liabilities by currency.

It is the Syndicate's policy to match assets and liabilities in the currencies it is exposed to on a monthly basis in order to minimise foreign currency risk. The table below details the Syndicate's assets and liabilities, in converted Sterling, by currency at 31 December 2016.

2016	**GBP £'000**	**EUR £'000**	**USD £'000**	**CAD £'000**	**AUD £'000**	**Other £'000**	**Total £'000**
Assets	367,894	114,664	385,180	39,892	61,226	18,868	987,724
Liabilities	(333,531)	(127,627)	(376,368)	(37,807)	(61,945)	(25,545)	(962,823)
Net assets	**34,363**	**(12,963)**	**8,812**	**2,085**	**(721)**	**(6,677)**	**24,901**

2015 restated	**GBP £'000**	**EUR £'000**	**USD £'000**	**CAD £'000**	**AUD £'000**	**Other £'000**	**Total £'000**
Assets	342,760	83,319	319,724	25,438	63,352	14,651	849,244
Liabilities	(282,055)	(79,741)	(308,472)	(26,257)	(57,882)	(22,303)	(776,710)
Net assets	**60,705**	**3,578**	**11,252**	**(819)**	**5,470**	**(7,652)**	**72,534**

The table below shows the impact on the Syndicate's net assets of a 5% appreciation or depreciation in each currency relative to Sterling, as at 31 December 2016:

2016	**GBP £'000**	**EUR £'000**	**USD £'000**	**CAD £'000**	**AUD £'000**	**Other £'000**	**Total £'000**
5% appreciation	-	(648)	441	104	(36)	(334)	**(473)**
5% depreciation	-	648	(441)	(104)	36	334	**473**

2015	**GBP £'000**	**EUR £'000**	**USD £'000**	**CAD £'000**	**AUD £'000**	**Other £'000**	**Total £'000**
5% appreciation	-	179	562	(41)	274	(383)	**591**
5% depreciation	-	(179)	(562)	41	(274)	383	**(591)**

Interest rate market risk

The Syndicate holds investments in its balance sheet that are sensitive to movements in interest rates. The sensitivity of the Syndicate's investment portfolio to movements in interest rates is monitored by the Investment Committee.

The table below shows the estimated immediate impact on the Syndicate's profit or loss and member's balance for the year of a 1% increase in the UK, US, Euro, Canadian and Australian interest rates on the market value of the Syndicate's investments:

	2016 £'000	**2015 £'000**
1% increase in UK interest rates	896	1,838
1% increase in US interest rates	(1,312)	1,690
1% increase in Euro interest rates	(679)	1,279
1% increase in Canadian interest rates	750	168
1% increase in Australian interest rates	388	864

Notes to the Financial Statements (continued)

2(c) Operational risk

Operational risk is the risk that failure of people, systems or processes leads to losses to the Syndicate. These risks are managed through internal compliance monitoring and the use of detailed procedure manuals. In addition, the MS Amlin Group has both a Corporate Centre Risk department and an Internal Audit department which assist MS Amlin Underwriting Limited to meet the strategic and operational objectives for the Syndicate through the provision of independent appraisal of the adequacy and effectiveness of internal controls in operation and to provide reasonable assurance as to the adequacy of systems and procedures to enable compliance with all relevant regulatory and legal requirements.

2(d) Regulatory and compliance risk

Regulatory risk is the risk that the Syndicate fails to meet the regulatory requirements of the Financial Conduct Authority, Prudential Regulation Authority and Lloyd's. Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly in respect of US situs business. MS Amlin Underwriting Limited, the managing agency, has a Compliance Officer who monitors regulatory developments and assesses the impact on agency policy.

2(e) Reinsurance and other risk mitigation arrangements

The Syndicate purchases a number of excess of loss reinsurances to protect itself from severe frequency or size of losses. The structure of the programme and type of protection bought will vary from year to year depending on the availability and price of cover.

2(f) Realistic Disaster Scenario (RDS) analysis

Syndicate 3210 as part of its annual business plan sets maxima for each Lloyd's defined event, which determines the maximum Gross and Net loss that the Syndicate intends to limit its exposure to, for those catastrophe event scenarios.

The risk tolerance policy recognises that there may be circumstances in which the net event limit could be exceeded. Such circumstances include changes in rates of exchange, non-renewal or delay in renewal of reinsurance protection, reinsurance security failure, or regulatory and legal requirements.

A detailed analysis of catastrophe exposures is carried out every quarter and measured against the event risk tolerance. The following assumptions and procedures are used in the process:

- The data used reflects the information supplied to the Syndicate by insureds and ceding companies. This may prove to be incomplete, inaccurate or could develop during the policy period.
- The exposures are modelled using a mixture of stochastic models and underwriter input to arrive at damage factors – these factors are then applied to the assumed aggregate exposure to produce gross loss estimates. The damage factors may prove to be inadequate.
- The reinsurance programme as purchased is applied – a provision for reinsurer counterparty failure is analysed but may prove to be inadequate.
- Reinstatement premiums payable are included together with uplifts for any uncaptured or unmodelled exposure.

There is no guarantee that the assumptions and techniques deployed in calculating these event loss estimate figures are accurate. Furthermore, there could also be a loss which exceeds these figures. The likelihood of such a catastrophe is considered to be remote but the most severe scenarios modelled are simulated events and these simulations could prove to be unreliable.

2(g) Capital management

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.

Notes to the Financial Statements (continued)

Capital framework at Lloyd's (continued)

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's complies with Solvency II, 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 3210 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(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's set 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 a 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'.

Provision of capital by the member

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 (FIS)) or as the member's share of the members' balances on each syndicate on which it participates.

The Funds at Lloyd's (FAL) provided by MSI Corporate Capital Limited at 31 December 2016 consist of letters of credit guaranteed by Mitsui Sumitomo Insurance Company, Ltd of £165,000k (2015: £163,500k) and Japanese bonds provided by Mitsui Sumitomo Insurance Company, Ltd with a market value of ¥24.2 billion (2015: ¥24.0 billion). 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 Members' FAL to meet liquidity requirements or to settle losses.

All of the assets less liabilities of the Syndicate, as represented in the member's balances reported on the balance sheet on page 11, represent resources available to meet MSI Corporate Capital Limited's and Lloyd's capital requirements.

From 1 January 2017, Syndicate 3210's business will be renewed into Syndicate 2001 and Syndicate 3210's 2016 and prior years of account will start to run-off. As a result of this, on-going underwriting will be consolidated into one member, MS ACM (the continuing member), from 1 January 2017. Therefore, in December 2016, the Funds at Lloyd's (FAL) was made inter-available between MSICC and MS ACM in order to allow the existing capital arrangements to continue supporting the open years of account for S3210 in run-off and the 2017 year of account onwards for S2001. This is because renewals for S3210 will be underwritten by S2001 and therefore typically it would be expected that S2001 would hold more capital going forward.

Notes to the Financial Statements (continued)

3. Analysis of underwriting result

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

	Fire and other damage to property	Third party liability	Motor - other	Marine aviation & transport	Re-insurance accepted	Total
	£'000	£'000	£'000	£'000	£'000	£'000
2016						
Gross premiums written	78,491	120,439	-	93,043	86,262	**378,235**
Gross premiums earned	83,351	107,333	-	106,337	99,414	**396,435**
Gross claims incurred	(58,785)	(88,992)	1,372	(68,522)	(87,549)	**(302,476)**
Gross operating expenses	(31,724)	(41,290)	-	(35,827)	(35,364)	**(144,205)**
Gross technical result	(7,158)	(22,949)	1,372	1,988	(23,499)	**(50,246)**
Re-insurance balance	(3,084)	3,828	(550)	2,202	9,752	**12,148**
Underwriting result	**(10,242)**	**(19,121)**	**822**	**4,190**	**(13,747)**	**(38,098)**
Net technical provisions	97,967	271,519	2,810	158,299	178,666	**709,261**
2015 restated						
Gross premiums written	79,083	95,902	10	99,575	95,718	**370,288**
Gross premiums earned	75,415	89,417	10	90,192	97,997	**353,031**
Gross claims incurred	(39,659)	(34,070)	11,518	(30,349)	(39,131)	**(131,691)**
Gross operating expenses	(28,588)	(30,619)	-	(31,420)	(29,946)	**(120,573)**
Gross technical result	7,168	24,728	11,528	28,423	28,920	**100,767**
Re-insurance balance	(11,182)	(5,491)	(6,166)	(12,517)	(11,918)	**(47,274)**
Underwriting result	**(4,014)**	**19,237**	**5,362**	**15,906**	**17,002**	**53,493**
Net technical provisions	95,648	216,549	4,466	139,654	173,455	**629,772**

All premiums are written in the UK.

Notes to the Financial Statements (continued)

4. Net operating expenses

	2016 £'000	2015 restated £'000
Acquisition costs:	106,260	99,727
Reinsurance commission	(77)	(356)
Change in deferred costs	(1,271)	(5,316)
Administrative expenses	36,331	24,754
Member's standard personal expenses	2,962	3,243
	144,205	**122,052**

Total written commissions for direct insurance business for the year amounted to £68,741k (2015: £61,301k).

Net operating expenses include:

Auditor's remuneration excluding VAT:

	2016 £'000	2015 £'000
Audit of financial statements	256	226
All other services	88	103
	344	**329**

5. Staff numbers and costs

All staff were employed by Mitsui Sumitomo Insurance (London Management) Limited (the immediate parent company of Mitsui Sumitomo Insurance Underwriting at Lloyd's Limited and MSI Corporate Capital Limited) until novation on 3 May 2016 and MS Amlin Corporate Services Limited post novation. The following amounts were recharged to the Syndicate in respect of salary costs:

	2016 £'000	2015 £'000
Wages and salaries	26,287	23,100
Social security costs	3,164	2,827
Pension costs	2,396	2,678
Other	1,352	587
	33,199	**29,192**

Mitsui Sumitomo Insurance (London) Management Limited operates a defined contribution pension scheme. Prior to 3 May 2016 a number of members of staff whose costs were recharged to the Syndicate were members of this pension scheme. On 3 May 2016 all relevant staff were novated to become members of a defined contribution pension scheme operated by MS Amlin Corporate Services Limited. The assets of the schemes operated by both Mitsui Sumitomo Insurance (London) Management Limited and MS Amlin Corporate Services Limited are held separately from those of the Syndicate in independently administered funds.

Notes to the Financial Statements (continued)

5. Staff numbers and costs (continued)

The average number of employees employed by Mitsui Sumitomo Insurance (London Management) Limited until novation on 3 May 2016 and MS Amlin Corporate Services Limited post novation but recharged to the Syndicate during the year was as follows:

	2016 no.	2015 no.
Finance	23	26
Administration	62	79
Claims	23	27
Underwriting	121	160
	229	**292**

6. Key management personnel compensation

	2016 £'000	2015 £'000
Key management personnel compensation	3,378	3,935
Compensation for loss of office	1,045	668
Contributions to money purchase pension schemes	53	236
	4,476	**4,839**

The aggregated emoluments of the highest paid Director were £1,653,404 (2015: £1,320,442), including pension contributions of £6,687 (2015: £2,625). The contributions to the money purchase pension schemes above accrued to six Directors.

The active underwriters of the Syndicate who served during the year received £865,814 (2015: £577,022) in remuneration.

For the purposes of this disclosure key management personnel are taken to be the executive Directors of the Managing Agent.

No advances or credits granted by the Managing Agent to any of its Directors existed during the year.

Notes to the Financial Statements (continued)

7. Investment return

	2016 £'000	2015 £'000
Investment income:		
Income from investments	9,179	8,609
Gains on the realisation of investments	7,747	4,869
Losses on the realisation of investments	(10,788)	(8,431)
	6,138	5,047
Unrealised gains/(losses) on investments:		
Unrealised gains on investments	11,319	6,427
Unrealised losses on investments	(8,624)	(8,092)
	2,695	(1,665)
Investment expenses and charges:		
Investment management expenses, including interest	(1,007)	(599)
Allocated investment return transferred to general business technical account	**7,826**	**2,783**
Investment returns on Funds in Syndicate	1,538	565
Total Investment Return	**9,354**	**3,348**

The average amount of Syndicate funds available for investment and the investment return and yield for the calendar year were as follows:

	2016 £'000	2015 £'000
Average funds	596,228	573,994
Investment return, including unrealised gains	9,365	3,348
Calendar year investment yield	1.57%	0.58%
Average funds available for investment by currency		
Sterling	240,455	249,286
United States Dollars	197,937	185,076
Euros	76,257	65,430
Canadian Dollars	20,057	14,390
Australian Dollars	43,764	45,026
Other	17,758	14,786
Analysis of calendar year investment yield by currency		
Sterling	1.19%	0.50%
United States Dollars	1.35%	0.42%
Euros	1.40%	(0.21%)
Canadian Dollars	1.16%	1.35%
Australian Dollars	2.59%	2.45%
Other	1.99%	1.04%

Average funds means the average of bank balances 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.

Notes to the Financial Statements (continued)

8. Other financial investments

	Market Value 2016 £'000	Cost 2016 £'000	Market Value 2015 £'000	Cost 2015 £'000
Debt securities and other fixed income				
Government and supranational securities	27,989	27,989	164,689	164,479
Government agency and regional government	7,108	7,108	15,908	15,972
Mortgage backed instruments	777	777	3,670	3,679
Corporate bonds	14,392	14,392	214,573	216,008
Hedge funds	4,718	4,236	28,497	26,837
Holdings in collective investment schemes	495,768	495,768	33,387	33,310
Participation in investment pools	49,490	49,490	34,045	34,045
Regulatory deposits	4,788	4,788	5,059	5,059
Deposits with credit institutions	7,036	7,036	46,870	46,870
Derivatives	225	-	-	-
	612,291	**611,584**	**546,698**	**546,259**

Debt securities and other fixed income consist of listed investments.

Holdings in collective investment schemes include Money Market Funds of £268,992k (2015: £13,313k).

Fair value estimation

For financial instruments carried at fair value the Syndicate has categorised the measurement basis into 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 (ie 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.
There were no changes to the valuation techniques during the year.

Debt and other fixed income securities
The fair value is based upon quotes from pricing services where available. These pricing services derive prices based on an average of quotes provided by brokers. Where multiple quotes are not available, the fair value is based upon evaluated pricing services, which typically use proprietary cash flow models and incorporate observable market inputs, such as credit spreads, benchmark quotes and other trade data. If such services do not provide coverage of the asset, then fair value is determined manually using indicative broker quotes, which are corroborated by recent market transactions in similar or identical assets.

Where there is an active market for these assets and their fair value is the unadjusted quoted market price, these are classified as Level 1. This is typically the case for government and supranational securities. Level 1 also includes holdings in collective investment schemes, where fair value is based upon quoted prices. Where market is inactive or the price is adjusted, but significant market observable inputs having been used by the pricing sources, then these are considered to be Level 2. This is typically the case for government agency and regional government, mortgage and asset-backed instruments and corporate bonds. Certain assets, for which prices or other market inputs are unobservable, are classified as Level 3.

Notes to the Financial Statements (continued)

8. Other financial investments (continued)

Participation in investment pools
These are units held in money market funds and the value is based upon unadjusted, quoted and executable prices provided by the fund manager and these are classified as Level 1.

Investments	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Debt securities and other fixed income				
Government and supranational securities	22,942	5,047	-	27,989
Government agency and regional government	-	7,108	-	7,108
Mortgage and asset backed instruments	-	777	-	777
Corporate bonds	-	14,392	-	14,392
Hedge funds	-	-	4,718	4,718
Holdings in collective investment schemes	268,966	226,802	-	495,768
Participation in investment pools	20,083	29,407	-	49,490
Regulatory deposits	-	4,788	-	4,788
Deposits with credit institutions	7,036	-	-	7,036
Derivatives	-	225	-	225
	319,027	**288,546**	**4,718**	**612,291**

Other financial investments include derivative financial assets of £225k (2015: derivative financial liability of £517k, disclosed in Other creditors including taxation and social security (note 11)) which are assigned to level 2.

	2015			
Investments	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Debt securities and other fixed income				
Government and supranational securities	159,773	4,916	-	164,689
Government agency and regional government	-	15,908	-	15,908
Mortgage and asset backed instruments	-	3,670	-	3,670
Corporate bonds	-	214,573	-	214,573
Hedge funds	-	28,497	-	28,497
Holdings in collective investment schemes	14,559	18,828	-	33,387
Participation in investment pools	14,248	19,797	-	34,045
Regulatory deposits	-	5,059	-	5,059
Deposits with credit institutions	46,870	-	-	46,870
Derivatives	-		-	-
	235,450	**311,248**	**-**	**546,698**

9. Debtors and creditors arising out of direct insurance and reinsurance operations

All amounts due to or receivable from the Syndicate in respect of direct insurance and reinsurance operations are in relation to intermediaries.

Of the debtors arising out of direct insurance and reinsurance operations, £244k (2015: £191k) are due after more than one year.

Notes to the Financial Statements (continued)

10. Other debtors

	2016 £'000	2015 £'000
Claims funds	4,791	3,645
Other debtors	5	7
Salvage and subrogation	357	140
	5,153	**3,792**

All balances are due within one year.

11. Other creditors including taxation and social security

	2016 £'000	2015 £'000
Other creditors	17,313	2,516
Tax creditors	486	630
Derivative financial liabilities	-	517
	17,799	**3,663**

All balances are due within one year.

Notes to the Financial Statements (continued)

12. Technical Provisions

The table below shows a reconciliation of changes in insurance liabilities, reinsurance assets and related deferred acquisition costs for the year ended 31 December 2016.

	As at 31 December 2015 £'000	Movement in provision £'000	Foreign exchange £'000	As at 31 December 2016 £'000
Technical provisions				
Provision for unearned premium	231,733	(18,200)	32,467	**246,000**
Claims outstanding	524,170	73,481	68,108	**665,759**
	755,903	55,281	100,575	**911,759**
Reinsurer's share of technical provisions				
Provision for unearned premium	13,147	1,362	1,698	**16,207**
Claims outstanding	63,864	53,822	9,455	**127,141**
	77,011	55,184	11,153	**143,348**
Deferred acquisition costs	49,120	1,885	8,145	**59,150**
Net technical provisions	629,772	(1,788)	81,277	**709,261**

	As at 31 December 2014 £'000 Restated	Movement in provision £'000 Restated	Foreign exchange £'000 Restated	As at 31 December 2015 £'000 Restated
Technical provisions				
Provision for unearned premium	212,510	17,257	1,966	**231,733**
Claims outstanding	553,885	(31,126)	1,411	**524,170**
	766,395	(13,869)	3,377	**755,903**
Reinsurer's share of technical provisions				
Provision for unearned premium	10,793	2,035	319	**13,147**
Claims outstanding	85,366	(23,028)	1,526	**63,864**
	96,159	(20,993)	1,845	**77,011**
Deferred acquisition costs	43,407	5,316	397	**49,120**
Net technical provisions	**626,829**	**1,808**	**1,135**	**629,772**

Foreign exchange shows the effect of the movement in exchange rates during the year.

Notes to the Financial Statements (continued)

13. Claims development

Claims development is shown in the tables below, both gross and net of reinsurance ceded, on an underwriting year basis. Balances have been translated at exchange rates prevailing at 31 December 2016.

2016

Pure underwriting year	**2011 £'000**	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2016 £'000**	**Total £'000**
Estimate of cumulative gross claims							
at end of underwriting year	72,460	83,315	121,889	113,191	118,743	124,897	
one year later	166,203	179,592	238,461	232,213	314,981		
two years later	144,667	165,816	217,926	249,035			
three years later	143,240	155,509	210,310				
four years later	136,825	154,075					
five years later	136,832						
Less gross claims paid	120,270	119,728	137,395	127,634	96,126	14,943	
Gross claims reserve	16,562	34,347	72,915	121,401	218,855	109,954	**574,034**
Gross claims reserve for 2010 and prior years							**91,725**
Gross claims reserves							**665,759**

Pure underwriting year	**2011 £'000**	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2016 £'000**	**Total £'000**
Estimate of cumulative net claims							
at end of underwriting year	65,990	77,305	109,119	106,321	112,118	112,063	
one year later	155,772	164,048	201,443	218,249	255,958		
two years later	138,848	156,076	194,311	235,486			
three years later	137,725	146,378	188,398				
four years later	129,382	143,006					
five years later	129,572						
Less net claims paid	113,606	112,139	134,561	123,161	91,145	14,843	
Net ultimate claims reserve	15,966	30,867	53,837	112,325	164,813	97,220	**475,028**
Net claims reserve for 2010 and prior years							**63,590**
Net claims reserves							**538,618**

Notes to the Financial Statements (continued)

13. Claims development (continued)

2015

Pure underwriting year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	Total £'000
Estimate of cumulative gross claims						
at end of underwriting year	73,476	78,177	109,713	100,952	105,850	
one year later	147,581	159,505	211,954	206,470		
two years later	130,943	147,274	193,784			
three years later	129,371	138,341				
four years later	123,548					
Less gross claims paid	102,205	92,748	96,410	58,711	10,542	
Gross claims reserve	21,343	45,593	97,374	147,759	95,308	**407,377**
Gross claims reserve for 2010 and prior years						**116,793**
Gross claims reserves						**524,170**

Pure underwriting year	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	Total £'000
Estimate of cumulative net claims						
at end of underwriting year	67,418	72,971	98,341	94,985	100,079	
one year later	137,775	145,659	180,276	194,514		
two years later	125,353	138,334	173,283			
three years later	123,987	129,870				
four years later	116,668					
Less net claims paid	96,110	87,032	95,177	55,941	10,070	
Net ultimate claims reserve	20,558	42,838	78,106	138,573	90,009	**370,084**
Net claims reserve for 2010 and prior years						**90,222**
Net claims reserves						**460,306**

Prior periods claims provisions

The movement in the net provision for claims includes an increase in net reserves of £31,961k (2015: £52,922k release) in respect of claims outstanding at the previous year end.

14. Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank and in hand	5,573	13,684
Deposits with credit institutions	3,878	5,137
	9,451	**18,821**

Deposits with credit institutions are included within Other financial investments in the balance sheet.

Notes to the Financial Statements (continued)

15. Related parties

The smallest group of undertakings of which the Managing Agent is a member, and for which group financial statements are prepared, is MS Amlin PLC (formerly Amlin PLC), a company incorporated in the UK. The largest group of undertakings of which the Managing Agent is a member, and for which group financial statements are prepared, is headed by MS&AD Insurance Group Holdings, Inc. a company incorporated in Japan, which is the ultimate parent undertaking. Consolidated financial statements for the smallest and largest group undertakings are available from the Registered Office of the Managing Agent's immediate parent company, MS Amlin plc at The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AG.

MSI Corporate Capital Limited
MSI Corporate Capital Limited (MSICC) satisfies Lloyd's capital requirements by assets held in trust (Funds at Lloyd's) and assets held within and managed within the Syndicate (Funds in Syndicate). Funds in Syndicate at 31 December 2016 were £127,560k (2015: £84,031k). The provision of capital and Funds at Lloyd's is addressed in note 2(f).

Distributions of profit to MSICC of £20,000k (2015: £46,000k) were made during the year. Members personal expenses of £2,962k (2015: £3,243k) were incurred by the Syndicate on behalf of MSICC.

MSI Underwriting Limited
Managing agent's fees of £227k (2015: £680k) were paid by the Syndicate to the date of novation, 3 May 2016

MS Amlin Underwriting Limited
Following novation on 3 May 2016, managing agent's fees of £453k (2015: £nil) were paid by the Syndicate.

There have been no transactions entered into or carried out during the year by either MSI Underwriting Limited or MS Amlin Underwriting Limited on behalf of the Syndicate in which it or any of its executives had directly or indirectly a material interest.

Mitsui Sumitomo Insurance (London Management) Limited
Mitsui Sumitomo Insurance (London Management) Limited (MSILM) was paid £56,429k (2015: £57,444k) during the year for expenses incurred directly and indirectly on behalf of the Syndicate. The balance sheet includes prepayments of £26k (2015: accruals of £3,302k) in relation to expenses recharged to the Syndicate by MSILM. These expenses are shown in administrative expenses and there is no profit element in the amounts paid to MSILM.

Prior to the acquisition of the Syndicate and the Managing agent by MS Amlin Corporate Services Limited (MS ACS), MSILM employed and paid all staff and expenses on behalf of the Syndicate. Following the acquisition, MS ACS employed and paid all staff and expense recharging the relevant portion of these cost to MSILM who then recharged these costs to the Syndicate to be reimbursed.

MSI Insurance Management Ireland
MSI Insurance Management (Ireland) Limited (MSIIMI) is a service company and its business is written under a coverholder agreement with the Syndicate. There was £6,025k due to the Syndicate in relation to business written under the service company agreement as at 31 December 2016. For the year ended 31 December 2016 gross written premiums of £17,155k (2015: 13,550k) were written by MSIIMI on behalf of the Syndicate.

All transactions between MSIIMI and the Syndicate are conducted on an arm's length basis.

MSIG Insurance Europe AG
One reinsurance contract is placed with the Syndicate for insurance written by MSIG Insurance Europe AG (MSIGAG). The gross premiums written in relation to MSIGAG during 2016 were £240k (2015: £374k), of which, £8k (2015: £163k) was outstanding at 31 December 2016. The outstanding claims reserves at 31 December were £147k (2015: £51k).

Notes to the Financial Statements (continued)

15. Related parties (continued)

Syndicate 2001
During 2016 Amlin plc was acquired by Mitsui Sumitomo Insurance Company, Ltd. Syndicate 2001 provides reinsurance to Syndicate 3210. The reinsurance written premiums in relation to Syndicate 2001 were £934k, of which £353k was outstanding at 31 December 2016. The outstanding claims reserves at 31 December were £287k.

Amlin Bermuda
Amlin Bermuda provides reinsurance to Syndicate 3210.During 2016 the reinsurance written premiums in relation Amlin Bermuda were £268k, of which £201k was outstanding at 31 December 2016. The outstanding claims reserves at 31 December were £nil.

16. Off-balance sheet items

Funds at Lloyd's (FAL) are provided by MSI Corporate Capital Limited consisting of letters of credit guaranteed by Mitsui Sumitomo Insurance Company Ltd. 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 Members' FAL to meet liquidity requirements or to settle losses. Further details are provided in note 2(f)."

17. Change in accounting policy

Following the acquisition of the managing agent of the Syndicate and the corporate vehicle providing capital to the Syndicate by MS Amlin Corporate Services Limited (MS ACS) during the year, the Syndicate changed its accounting policy for deferring acquisition costs to align with the accounting policy of the MS Amlin plc group. Previously the Syndicate included underwriting expenses within its deferred acquisition expenses; however the MS Amlin Group plc accounting policy does not include underwriting expenses within deferred acquisition costs.

The balance of deferred acquisition costs were reduced by £11.5m at 31.12.14, from £54.9m to £43.4m.

The movement in deferred acquisition costs for the financial year ended 31 December 2015 was reduced by £1.4m, leading to a cumulative reduction in the balance of deferred acquisition costs of £12.9m.