Important information about Syndicate Reports and Accounts

AmTrust Syndicates Limited: Syndicate 1206

Syndicate Financial Statements

31 December 2017

This page has been intentionally left blank

Contents

Directors and advisers

Managing Agent

AmTrust Syndicates Limited

Registered office
47 Mark Lane
London EC3R 7QQ

Managing Agent's registration No. 4434499

FCA firm registration No. 226696

Lloyd's registration No. 2073D

Syndicate: 1206

Directors

B Jansli	Non-Executive Chairman	Resigned 31/12/2017
N C T Pawson	Non-Executive Director	
J P Fox	Non-Executive Director	
B J Jackson	Non-Executive Director	
J E Cadle	Non-Executive Deputy Chairman	
M G Caviet	Non-Executive Director	
P Dewey		
J A H G Cartwright		Appointed 18/12/2017
S Lacy		Appointed 08/05/2017
D J L Barrett		Resigned 30/11/2017; Re-appointed 07/02/2018
S J Helson		Resigned 31/12/2017
J M Hamilton		Resigned 31/12/2017
B Gilman		Resigned 05/09/2017
M A Sibthorpe		Resigned 08/12/2017
G Sweatman		Resigned 20/02/2017

Company secretary

D J L Barrett	Resigned 30/11/2017
P A Cockburn	Appointed 30/11/2017

Active Underwriter
C Jarvis

Bankers
Barclays Bank PLC
Citibank N.A.
National Westminster Bank PLC
Royal Bank of Canada

Investment Managers
AII Insurance Management Limited

Statutory Auditors
KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Report of the Directors of the Managing Agent

The directors of the Managing Agent, AmTrust Syndicates Limited ('ASL'), present their report, which incorporates the strategic review, for the year ended 31 December 2017. The Syndicate's Managing Agent is a company registered in England and Wales.

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

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

Principal activity
During 2017, the Syndicate's principal activity continues to be the transaction of general insurance and reinsurance business. The Syndicate capacity for the 2017 year of account was £260.0m.

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

AFSI has entered into a definitive agreement with Evergreen Parent, L.P., an entity formed by private equity funds managed by Stone Point Capital LLC, together with Barry D. Zyskind, Chairman and CEO of AFSI, George Karfunkel and Leah Karfunkel (collectively, the "Karfunkel-Zyskind Family"), in which Evergreen Parent will acquire the approximately 45% of the Company's issued and outstanding common shares that the Karfunkel-Zyskind Family and certain of its affiliates and related parties do not presently own or control. The proposed merger is anticipated to close in the second half of 2018, subject to satisfaction or waiver of the closing conditions, including approval by regulatory authorities and the Company's independent shareholders.

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

During 2017 ASL managed Lloyd's Syndicates 1861, 1206, 5820, 2526, 44 and 779 writing a globally diversified risk portfolio with twelve diverse lines of business, selected based on the platform's strategic position, the market opportunity within Lloyd's and the portfolio diversification and capital benefits these classes offered.

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

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

Report of the Directors of the Managing Agent *(continued)*

Financial Performance and Key Performance Indicators

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

	2017	2016
	£'000	£'000
Gross Written Premiums	**212,192**	*237,849*
Gross Earned Premium	**211,075**	*200,631*
Net Earned Premium	**169,986**	*175,129*
Gross Incurred Claims	**(242,153)**	*(133,650)*
Net Incurred Claims	**(165,799)**	*(121,917)*
Investment return	**6,971**	*9,850*
Operating expenses	**(78,430)**	*(72,467)*
Other (expenses)/income	**2,562**	*5,356*
Loss for the financial year	**(64,710)**	*(4,049)*
Claims ratio (net)	**97.5%**	69.6%
Acquisition ratio (net)	**31.2%**	27.2%
Expense ratio (net)	**15.0%**	*14.2%*
Combined ratio	**143.7%**	*111.0%*

Loss for the financial year

The Syndicate generated a loss for the year of £67,272k (2016: loss of £9,405k) before foreign exchange gains of £2,562k (2016: foreign exchange gains of £5,356k) taking the combined result to a loss of £64,710k (2016: loss of £4,049k).

The loss in the year is the combination of several factors including material exposure to hurricanes Harvey, Irma and Maria and the Mexico earthquakes particularly on the Property account. The Syndicate's reinsurance programme, including its participation on the group catastrophe programme, significantly ameliorated the impact with net losses totalling $22,359k (£16,546k). These losses triggered reinstatements premium with the acceleration of the earning of the catastrophe excess of loss protection further impacting the results. The Californian Wildfires further deteriorated the Property account with net losses of $8,248k (£6,104k) incurred at the year end.

Large loss activity on the Marine and Special Lines classes, and adverse attritional loss development on the Property and Marine lines further deteriorated the results.

Gross Written Premium

A breakdown on the gross written premiums by class of business is set out below.

	2017	2016
	£'000	£'000
Personal Accident & Sickness	**56,377**	*55,181*
Property	**66,248**	*102,056*
Special Lines	**18,917**	*15,516*
Treaty	**12,703**	*19,654*
Liability	**1,293**	*10,218*
Extended Warranty	**43,530**	*24,325*
Marine	**13,151**	*10,957*
Lines of business no longer written	**(27)**	*(58)*
Total Gross Written Premium	**212,192**	*237,849*

The biggest driver for the reduction in gross written premiums during 2017 was the Property class which reduced by £35,808k from the prior year. This follows the integration of the Property account with that of Syndicates 1861 and 5820 during the year and the subsequent rebalancing of the portfolio and exposures.

Reductions in the Treaty and Liability books, in line with plan, were offset by an increase in Extended Warranty although the growth of this book was lower than forecast following the non-renewal of the largest account.

Report of the Directors of the Managing Agent *(continued)*

Financial Performance and Key Performance Indicators *(continued)*

Gross earned premium

A breakdown of the earned premium by class of business is set out below.

	2017	2016
	£'000	£'000
Personal Accident & Sickness	**58,245**	*45,235*
Property	**93,044**	*98,639*
Special Lines	**17,745**	*17,076*
Treaty	**16,312**	*22,204*
Liability	**3,614**	*10,142*
Extended Warranty	**8,609**	*2,438*
Marine	**13,533**	*4,955*
Lines of business no longer written	**(27)**	*(58)*
Total Gross Earned Premiums	**211,075**	*200,631*

Gross earned premium increased from the prior year by £10,444k principally in relation to the Personal Accident & Sickness and Marine accounts following significant written premium growth in the prior year and the timing difference between writing and earning the business. This is particularly evident in the Extended Warranty class which earns over a number of years – written premiums increased by £19,205 whilst earned premiums increased by £6,171k. Offsetting this were reductions of £5,892k and £6,528k in the Treaty and Liability books respectively following a reduction in written premiums.

Earned reinsurance premiums

A breakdown of the earned reinsurance premiums by class of business is set out in the table below.

	2017	2016
	£'000	£'000
On-going lines of business:		
Personal Accident & Sickness	**8,115**	*2,324*
Property	**21,697**	*12,401*
Special Lines	**1,972**	*1,590*
Treaty	**4,369**	*6,538*
Liability	**(184)**	*800*
Extended Warranty	**-**	-
Marine	**4,933**	*1,579*
Lines of business no longer written	**187**	*270*
Total Earned Reinsurance Premiums	**41,089**	*25,502*

The Managing Agent continues to carefully manage line sizes and retention levels such that the aggregate exposure to hurricane and other losses is controlled to manageable levels. Reinsurance remains an integral part of the management of aggregate exposure.

Earned reinsurance premiums increased by £15,587k in the year following both the triggering of reinstatement premiums and the acceleration of the earning patterns on the Property account as a result of the Q3 catastrophe losses on hurricanes Harvey, Irma and Maria, as well as following growth in the gross earned premiums particularly on the Marine account.

Report of the Directors of the Managing Agent *(continued)*

Financial Performance and Key Performance Indicators *(continued)*

Gross and net incurred claims

A breakdown of the gross and net incurred claims by class of business is set out in the table below.

	Gross Incurred Claims		Net Incurred Claims	
	2017	2016	**2017**	2016
	£'000	£'000	**£'000**	£'000
On-going lines of business:				
Personal Accident & Sickness	**43,293**	*27,227*	**39,498**	*27,227*
Property	**139,011**	*58,882*	**79,005**	*56,870*
Special Lines	**20,336**	*17,172*	**18,954**	*14,786*
Treaty	**19,212**	*18,952*	**16,792**	*12,930*
Liability	**(4,605)**	*8,039*	**(5,686)**	*7,202*
Extended Warranty	**7,515**	*1,766*	**7,515**	*1,766*
Marine	**15,170**	*3,707*	**11,566**	*3,411*
Lines of business no longer written	**2,221**	*(2,095)*	**(1,845)**	*(2,275)*
Total	**242,153**	*133,650*	**165,799**	*121,917*

Gross incurred claims increased by £108,503k during the year, £43,882k on a net basis. This equates to a deterioration in the net incurred claims ratio of 27.9% from 69.6% to 97.5%. By far the most significant driver of the increase in incurred claims was the Property account following hurricanes Harvey, Irma and Maria and the Mexico earthquakes in addition to claims arising from the Californian Wildfires and adverse attritional development. Large loss activity on the Marine and Special Lines classes, and adverse attritional loss development on the Marine book further deteriorated the claims ratio. Losses were partially offset by an improvement on the Liability class driven by the release of the 2016 Ogden margin as well as favourable claims development in the year.

Investment Performance

The average cash and investment balance during 2017 was £254,714k (2016 - £243,690k). The investment return for 2017 of £6,971k (2016 - £9,850k) represented a return of 2.74% (2016 – 4.04%).

The make-up of the investment portfolio managed by AII Insurance Management, an AFSI group company, at 31 December is set out below:

31 December 2017	**GBP**	**Euro**	**US$**	**Can$**	**AUD**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Corporate Bonds	**19,199**	**31,594**	**33,839**	**32,565**	**9,343**	**126,540**
Government Bonds	**-**	**1,653**	**2,235**	**4,762**	**-**	**8,650**
Government Agencies	**-**	**-**	**49,999**	**-**	**-**	**49,999**
Total assets under management	**19,199**	**33,247**	**86,073**	**37,327**	**9,343**	**185,189**

31 December 2016	GBP	Euro	US$	Can$	AUD	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Corporate Bonds	*39,532*	*28,917*	*62,945*	*24,919*	*18,149*	*174,462*
Government Bonds	-	*1,626*	*730*	*16,379*	-	*18,735*
Government Agencies	-	-	*43,219*	-	-	*43,219*
Total assets under management	*39,532*	*30,543*	*106,894*	*41,298*	*18,149*	*236,416*

Report of the Directors of the Managing Agent *(continued)*

Financial Performance and Key Performance Indicators *(continued)*

Closing Year of Account Review

The directors approved the closure of the 2015 Year of Account by reinsurance to close into the 2016 year of account of the Syndicate. The year closed at a loss of £16,247k following a calendar year loss of £10,113k and a brought-forward retained loss after 24 months of £6,134k. The result at 36 months follows higher than expected claims on the Treaty and Special Lines accounts.

The closing result will be called from the sole capital provider, AmTrust Corporate Member Limited, during the second quarter of 2018.

Member's Balances

Member's balances, representing net liabilities of £98,666k deteriorated by £90,586k from 31 December 2016 following the 2017 calendar year loss of £64,710k and the distribution of the closing profit on the 2014 year of account of £25,887k. These balances were fully funded at Lloyd's at 31 December 2017.

Ultimately, the Syndicate's obligations are underpinned by the support provided by the Lloyd's solvency process and the Lloyd's chain of security as explained in note 4.

Significant Events

During the period the Managing Agent took the decision to consolidate its non-life underwriting activities for the 2018 year of account onwards into Syndicate 1861, another wholly aligned syndicate managed by ASL, as a consequence the Syndicate will be in run-off with effect from 1 January 2018. Together with novation of the management of the Syndicate from AmTrust at Lloyd's Limited to ASL, formerly ANV Syndicates Limited, on 3 March 2017, this represents a significant step towards realising AmTrust's strategy to have one agency to manage the activities of a single combined property and casualty syndicate.

Following the decision to cease underwriting the Syndicate with effect from 1 January 2018, G Ross has been appointed as Run-Off manager and D J L Barrett appointed as the Director responsible for run-off.

During the fourth quarter, ASL's Chairman Bjorn Jansli retired from the Board. Nicholas Pawson has been appointed as Chairman of the Board pending regulatory approval.

During the fourth quarter, ASL's Chief Underwriting Officer, M A Sibthorpe, resigned with Chris Jarvis, Active Underwriter for Syndicates 1861 and 1206 being appointed as Director of Underwriting.

Principal risks and uncertainties

ASL has a formal risk management framework to identify, assess and manage risks significant to the achievement of the business plans and objectives. It is an on-going process providing for the systematic analysis, handling and reporting of risks and their comparisons with risk appetites, effectiveness of controls, risk events and near misses as well as emerging risks. This process also includes setting and monitoring actions to mitigate risk and to return metrics to within appetite.

The principal risks and uncertainties facing the Syndicate, as detailed in Note 4 to the financial statements, are as follows:

- Insurance risk
- Investment risk
- Credit risk
- Market risk
- Liquidity risk
- Operational risk
- Regulatory (including Conduct) risk

Corporate Governance

The ASL Board Chair is supported by a combination of Executive Directors and Non-Executive Directors.

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

Report of the Directors of the Managing Agent *(continued)*

Financial Performance and Key Performance Indicators *(continued)*

The ASL Board meets at least four times a year and more frequently when business needs require. The Board has a schedule of matters reserved for its decision and has appointed an Executive Committee to manage the operations of the business. The Board and the Executive Committee are supported by an Audit Committee and a Risk Committee. The Committee Framework includes a number of other Committees, including a dedicated Product Governance Committee to manage conduct risk issues.

Future Developments

As reported above, Syndicate 1206 ceased underwriting from 1 January 2018 and is in run-off. This decision has not impacted the closing results of the 2015 year of account and it is management's expectation that this will not impact the results of the 2016 year of account. The 2016 year of account is expected to close by way of reinsurance to close into its successor year of account at the normal 36 month period on a consistent basis to the closure of the 2015 year of account at 31 December 2017. Following analysis of the expected future cash flows of the Syndicate over the next 12 months and its available capital resources, the directors do not forecast a cash call being required on the 2016 year of account during 2018.

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

Staff Matters

ASL considers its staff to be a key resource and the retention of staff fundamental to the success of the business. The strategy adopted by ASL is designed to ensure that the employees' remuneration package remains competitive with the rest of the London Market.

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

Directors and Directors' Interests

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

Disclosure of Information to the Auditors

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

Auditors

Pursuant to Section 14 (2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate accounts) Regulation 2008, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Syndicate's Annual General Meeting

ASL does not propose to hold an annual general meeting of the member of the Syndicate to reappoint KPMG LLP as the Syndicate auditors.

By order of the Board

Peter Dewey
Chief Executive Officer
AmTrust Syndicates Limited

16 March 2018

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 FRS102 *The Financial Reporting Standard Applicable in the UK and the 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Assess the Syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

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 are responsible for such internal control as they determine if necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonable 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.

On behalf of the board

Peter Dewey
Chief Executive Officer
AmTrust Syndicates Limited

16 March 2018

Independent auditor's report to the member of Syndicate 1206

Opinion

We have audited the financial statements of Syndicate 1206 for the year ended 31 December 2017 which comprise the Income Statement: Technical Account, Income Statement: Non-technical Account, Statement of Financial Position, Statement of Changes in Member's Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the Syndicate's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

Report of the directors of the Managing Agent

The directors are responsible for the Report of the Directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the Directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

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

Under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Responsibilities of the directors of the Managing Agent

As explained more fully in their statement set out on page 9, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Syndicate's member, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's member those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the Syndicate's member, as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Taylor (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
United Kingdom
16 March 2018

Income Statement: Technical Account – General Business

For the year ended 31 December 2017

	Note	**Year Ended 31 December 2017**		Year Ended 31 December 2016	
		£000	**£000**	£000	£000
Earned premium, net of reinsurance					
Gross premiums written	*5*	**212,192**		*237,849*	
Outward reinsurance premiums		**(55,843)**		*(27,711)*	
Change in the provision for unearned premiums					
Gross amount	*19*	**(1,117)**		*(37,218)*	
Reinsurers' share	*19*	**14,754**		*2,209*	
Earned premium, net of reinsurance			**169,986**		*175,129*
Allocated investment return transferred from the non-technical account			**6,971**		*9,850*
Total technical income			**176,957**		*184,979*
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		**(169,311)**		*(131,002)*	
Reinsurers' share		**17,362**		*11,551*	
			(151,949)		*(119,451)*
Change in provision for claims					
Gross amount	*19*	**(72,842)**		*(2,648)*	
Reinsurers' share	*19*	**58,992**		*182*	
			(13,850)		*(2,466)*
Claims incurred, net of reinsurance			**(165,799)**		*(121,917)*
Net operating expenses	*8*		**(78,430)**		*(72,467)*
Total technical charges			**(244,229)**		*(194,384)*
Balance on the technical account - general business			**(67,272)**		*(9,405)*

The Syndicate has ceased underwriting with effect from 1 January 2018 and therefore there are no component parts of the business to be separately classified and disclosed as discontinued.

The notes on pages 18 to 40 form an integral part of these financial statements.

Income Statement: Non-technical Account

For the year ended 31 December 2017

	Note	Year ended 31 December 2017	Year ended 31 December 2016
		£000	£000
Balance on the technical account – general business		**(67,272)**	*(9,405)*
Investment income (including realised gains)	*11*	**9,404**	*10,791*
Unrealised gains on investments	*11*	**1,012**	*3,220*
Investment expenses and charges			
Investment management expenses	*11*	**(356)**	*(348)*
Realised losses on investments	*11*	**(1,438)**	*(1,343)*
Unrealised losses on investments	*11*	**(1,651)**	*(2,470)*
Foreign exchange	*12*	**2,562**	*5,356*
Allocated investment return transferred to the technical account – general business		**(6,971)**	*(9,850)*
Loss for the financial year		**(64,710)**	*(4,049)*

The Syndicate has ceased underwriting with effect form 1 January 2018 and therefore there are no component parts of the business to be separately classified and disclosed as discontinued.

There were no recognised gains or losses relating to the current or prior year other than those included in the income statement. Therefore, no statement of other comprehensive income has been presented

The notes on pages 18 to 40 form an integral part of these financial statements.

Statement of Financial Position - Assets

As at 31 December 2017

	Note	**£000**	**2017 £000**	£000	2016 £000
Investments					
Other financial investments	*13*		**187,332**		*237,652*
Reinsurers' share of technical provisions					
Provisions for unearned premiums	*19*	**21,425**		*7,656*	
Claims outstanding	*19*	**106,417**		*52,126*	
			127,842		*59,782*
Debtors					
Debtors arising out of direct insurance operations	*14*	**61,610**		*75,667*	
Debtors arising out of reinsurance operations	*15*	**17,246**		*17,394*	
Other debtors	*16*	**5,410**		*2,660*	
			84,266		*95,721*
Other assets					
Cash at bank and in hand	*22*	**9,351**		*14,891*	
Overseas deposits	*17*	**36,411**		*41,375*	
			45,762		*56,266*
Prepayments and accrued income					
Deferred acquisition costs	*18*	**29,877**		*38,083*	
Other prepayments and accrued income		**1,598**		*2,352*	
			31,475		*40,435*
Total assets			**476,677**		*489,856*

The notes on pages 18 to 40 form an integral part of these financial statements.

Statement of Financial Position - Liabilities

As at 31 December 2017

	Note		**2017**		2016
		£000	**£000**	£000	£000
Member's balances			**(98,666)**		*(8,080)*
Technical provisions					
Provisions for unearned premiums	*19*	**127,594**		*135,098*	
Claims outstanding	*19*	**411,211**		*353,514*	
			538,805		*488,612*
Creditors					
Creditors arising out of direct insurance operations		**5,667**		*91*	
Creditors arising out of reinsurance operations		**29,879**		*8,031*	
Other creditors		**992**		*1,202*	
	21		**36,538**		*9,324*
Total liabilities			**476,677**		*489,856*

These Syndicate financial statements on pages 12 to 40 were approved by the Board of ASL on 16 March 2018 and were signed on its behalf by:

J A H G Cartwright
Director

16 March 2018

The notes on pages 18 to 40 form an integral part of these financial statements

Statement of Changes in Member's Balance

As at 31 December 2017

	2017 **£000**	2016 £000
Member's balance brought forward at 1 January	**(8,080)**	*(38,922)*
Loss for the financial year	**(64,710)**	*(4,049)*
US Federal income tax	**11**	-
Cash (paid to) / called from member	**(25,887)**	*34,891*
Member's balance carried forward at 31 December	**(98,666)**	*(8,080)*

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 18 to 40 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2017

	Note	**Year ended 31 December 2017**	Year ended 31 December 2016
Cash flows from operating activities		**£000**	£000
Loss for the financial year		**(64,710)**	*(4,049)*
Adjustments for:			
Net unrealised (gains) / losses on other financial assets		**1,400**	*(5,045)*
Investment return		**(6,971)**	*(9,850)*
Movements in operating assets and liabilities:			
Increase in gross technical provisions		**50,193**	*100,485*
Increase in reinsurers' share of technical provisions		**(68,060)**	*(8,851)*
Decrease / (increase) in debtors		**20,415**	*(47,442)*
Increase in creditors		**27,214**	*3,682*
Acquisition of other financial instruments		**(158,425)**	*(228,049)*
Proceeds from sale of other financial instruments		**197,862**	*203,516*
Interest received		**8,020**	*9,448*
Investment management fees		**(356)**	*(348)*
Foreign exchange		**9,930**	*(38,156)*
Net unrealised gains on other financial assets		**(693)**	*750*
Movement in other assets / liabilities		**4,964**	*(3,432)*
Net cash inflow / (outflow) from operating activities		**20,783**	*(27,341)*
Net cash flow from financing activities			
Cash call from member in respect of underwriting participation		**(25,887)**	*34,891*
Refund of US Federal income tax paid on behalf of member		**11**	*-*
Net cash (outflow) / inflow from financing activities		**(25,876)**	*34,891*
Net (decrease) / increase in cash and cash equivalents		**(5,093)**	*7,550*
Cash and cash equivalents at 1 January		**14,891**	*6,111*
Effect of exchange rate changes on cash and cash equivalents		**(447)**	*1,230*
Cash and cash equivalents at 31 December	*22*	**9,351**	*14,891*

The notes on pages 18 to 40 form part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2017

1 Basis of preparation

Syndicate 1206 (“The Syndicate”) comprises a single corporate member of Lloyd’s (AmTrust Corporate Member Limited), that underwrites business in the London Market.

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd’s Syndicate and Aggregate Accounts) Regulations 2008 and applicable Accounting Standards in the United Kingdom and the Republic of Ireland, Financial Reporting Standard 102 (FRS 102), and the applicable Accounting Standard on insurance contracts Financial Reporting Standard 103 (FRS 103). The Syndicate has adopted the March 2016 amendment to paragraph 34.22 of FRS 102 in relation to fair value hierarchy.

The financial statements have been prepared on the historical cost basis, except for financial assets at fair value through profit or loss that are measured at fair value.

The financial statements are presented in Pounds Sterling (“GBP”), which is the Syndicate’s functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

2 Judgements and estimates

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

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

The Syndicate’s principal estimates are for claims provisions and related recoveries, estimates of gross premiums written and earned, outwards reinsurance premium ceded and earned, acquisition costs and the valuation of investments. Management regularly reviews and revises these estimates as appropriate based on current information. Any adjustments made to these estimates are reflected in the period in which the estimates are revised.

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

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

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

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

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

Notes to the financial statements

For the year ended 31 December 2017 (continued)

3 Accounting policies

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

The financial statements have been prepared on an annual basis of accounting, whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance as follows:

Basis of accounting

Premiums written

Premiums written comprise premiums on contracts incepted during the financial year. Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Estimates are made for pipeline premiums, representing premiums written but not reported to the Syndicate by the statement of financial position date, as well as adjustments made in the year to premiums written in prior accounting periods. The directors consider that the estimated provisions for gross premiums written are fairly stated on the basis of the information currently available to them. However, ultimate amounts of premiums will vary as a result of subsequent events and this may result in adjustments to the amounts accounted.

Unearned premiums

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

Reinsurance premium ceded

Outwards reinsurance premiums on policies purchased on a "risks attaching during" basis are accounted for in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Outwards reinsurance premiums on policies purchased on a "losses occurring during" basis are accounted for over the period of the contract.

Claims provisions and related recoveries

The provision for claims comprises amounts set aside for claims notified and claims incurred but not yet reported (IBNR).

Gross claims incurred comprise claims and settlement expenses (both internal and external) paid in the year and the movement in provision for outstanding claims and settlement expenses, including an allowance for the cost of claims incurred by the statement of financial position date but not reported until after the year end. Claims outstanding are reduced by anticipated salvage and other recoveries.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate's in-house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. The provision for claims also includes amounts in respect of internal and external claims handling costs. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

In the event of a catastrophe, the Syndicate's approach is to analyse the range of exposures through two primary methods, the Catastrophe Model or on a risk by risk basis, depending on the type of loss occurrence. Both analyses involve a number of departments who consider the ranges arising from the review to determine the Syndicate's ultimate estimate of the event. The Catastrophe Model exercise is principally undertaken by the Catastrophe Modelling, Risk Management and Underwriting teams based on the loss footprints provided by external agencies. The risk by risk analysis is performed by the Claims and Underwriting teams taking into account internal information as well as that received from third party sources.

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

Notes to the financial statements

For the year ended 31 December 2017 (continued)

3 Accounting policies *(continued)*

Accordingly the two most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development and that the rating and other models used for current business are fair reflections of the likely level of ultimate claims to be incurred.

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the annual accounts for the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly.

Unexpired risks provision

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

The provision for unexpired risks is calculated separately by reference to all classes of business that are managed together. Consideration of forecast investment return is made where it is reasonably foreseeable.

Acquisition costs

Acquisition costs comprise commission and other costs related to the acquisition of new insurance contracts. Acquisition costs are deferred (“deferred acquisition costs”) to the extent that they are attributable to premiums unearned at the statement of financial position date.

Segmental Reporting

The segmental analysis provided in Note 5 to the financial statements is produced on the basis of the classes of business as required by Lloyd’s.

Foreign currencies

The functional currency is Sterling. Income and expenditure in US dollars, Canadian dollars, Japanese yen Australian dollars and Euros are translated at the average rates of exchange for the period. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Assets and liabilities are translated into Sterling at the rates of exchange at the Statement of Financial Position dates. Foreign exchange gains and losses are recognised in the non-technical account.

Under FRS 103, insurance assets and insurance liabilities are deemed as monetary items.

Financial assets and liabilities

The Syndicate has chosen to apply the provisions of Section 11 (Basic Financial Instruments) and Section 12 (Other Financial Instruments Issues) of FRS 102 for the treatment and disclosure of financial assets and liabilities, with the amendment to section 12.17 as set out in Amendments to FRS 102 section 34.22.

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

Recognition:

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

Initial Measurement:

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

Notes to the financial statements

For the year ended 31 December 2017 (continued)

Subsequent measurement:

All debt instruments are measured at fair value through profit or loss.

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

Derecognition of financial assets and liabilities:

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

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

Fair value measurement:

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

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

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

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

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

Impairment of financial instruments measured at amortised cost or cost:

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

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

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

Notes to the financial statements

For the year ended 31 December 2017 (continued)

3 Accounting policies *(continued)*

Investments in shares and other variable yield securities, units in unit trusts and debt and other fixed income securities are managed on a fair value basis in accordance with the Syndicate's investment strategy. Deposits with credit institutions, debtors and accrued interest are classified as loans and receivables. Financial assets at fair value through profit and loss are stated at fair value at the statement of financial position date. For this purpose listed investments are stated at bid value and deposits with credit institutions and overseas deposits are stated at amortised cost. Unlisted investments for which a market exists are stated at the average price at which they were traded on the Statement of Financial Position date or the last trading day before that date.

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

Investment return

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

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

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

Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the Statement of Financial Position under the heading 'Member's balances'.

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

Retirement benefit scheme costs

AmTrust group service companies, comprising AmTrust Central Bureau of Service Limited (CBS), AmTrust Syndicate Holdings Limited (ASH) and AmTrust Management Services Limited (AMSL), operate defined contribution retirement benefit schemes for all qualifying employees. Pension contributions relating to staff working on behalf of the Syndicate are charged to the Syndicate and included within net operating expenses.

4 Risk and capital management

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

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

a) Insurance risk

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

Notes to the financial statements
For the year ended 31 December 2017 (continued)

4 Risk and capital management *(continued)*

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

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

The Syndicate makes use of reinsurance to mitigate the risk of incurring significant losses linked to one event, including excess of loss, quota shares and catastrophe reinsurance. Where an individual exposure is deemed surplus to the Syndicate's appetite, additional facultative reinsurance is purchased.

Concentration of insurance risk

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

	2017	2016
	£000	£000
UK	**58,468**	*64,406*
USA	**85,108**	*94,994*
Australia	**8,655**	*12,994*
Canada	**17,523**	*16,255*
Other EU Countries	**17,415**	*19,181*
Other	**25,023**	*30,019*
	212,192	*237,849*

Sensitivity to insurance risk

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

	2017		2016	
	5% Increase	**5% Decrease**	5% Increase	5% Decrease
	£000	**£000**	£000	£000
Gross claims	**(20,101)**	**20,101**	*(17,624)*	*17,624*
Reinsurer's share	**7,411**	**(8,039)**	*4,804*	*(7,814)*
Net impact on member's balances	**(12,690)**	**12,062**	*(12,820)*	*9,810*

b) Investment risk

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

Notes to the financial statements

For the year ended 31 December 2017 (continued)

4 Risk and capital management *(continued)*

c) Credit risk

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

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

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

The Syndicate's exposure to intermediaries is monitored as part of the credit control processes. All intermediaries must meet minimum requirements established by the Syndicate. The credit ratings and payment histories of intermediaries are monitored on a regular basis.

Debtors arising out of direct operations are comprised of pipeline premiums, balances relating to outstanding receipts from Lloyd's Central Accounting ('LCA') and amounts for business settled outside of Xchanging ('settled direct'). By their nature, it is not possible to classify these balances by credit rating.

By their nature, deferred acquisition costs and reinsurers' share of unearned premiums are not exposed to credit risk. Other debtors primarily related to balances with group companies.

The credit rating of financial assets, all of which are neither past due or impaired is as follows:

31 December 2017	AAA	AA	A	BBB or less	Not rated	Total
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	**-**	**2,143**	**-**	**-**	**-**	**2,143**
Debt securities and other fixed income securities	**8,755**	**70,880**	**66,719**	**38,835**	**-**	**185,189**
Overseas deposits	**20,548**	**5,308**	**3,589**	**3,162**	**3,804**	**36,411**
Cash at bank and in hand	**-**	**-**	**-**	**9,351**	**-**	**9,351**
Reinsurers' share of outstanding claims	**-**	**-**	**76,589**	**115**	**29,713**	**106,417**
Accrued reinsurance recoveries	**-**	**-**	**1,470**	**-**	**2,619**	**4,089**
Debtors arising out of reinsurance operations	**-**	**-**	**-**	**-**	**13,157**	**13,157**
Debtors arising out of direct insurance operations	**-**	**-**	**-**	**-**	**61,610**	**61,610**
Deferred acquisition costs	**-**	**-**	**-**	**-**	**29,877**	**29,877**
Reinsurers' share of unearned premiums	**-**	**-**	**-**	**-**	**21,425**	**21,425**
Other prepayments and accrued income	**-**	**-**	**-**	**-**	**1,598**	**1,598**
Other debtors	**-**	**-**	**-**	**-**	**5,410**	**5,410**
Total	**29,303**	**78,331**	**148,367**	**51,463**	**169,213**	**476,677**

Notes to the financial statements

For the year ended 31 December 2017 (continued)

4 Risk and capital management *(continued)*

31 December 2016	AAA	AA	A	BBB or less	Not rated	Total
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	-	*1,236*	-	-	-	*1,236*
Debt securities and other fixed income securities	*11,017*	*73,173*	*70,662*	*76,397*	*5,167*	*236,416*
Overseas deposits	*23,538*	*7,221*	*4,200*	*1,824*	*4,592*	*41,375*
Cash at bank and in hand	-	-	-	*14,891*	-	*14,891*
Reinsurers' share of outstanding claims	-	-	*48,382*	*126*	*3,618*	*52,126*
Accrued reinsurance recoveries	-	-	*253*	-	*52*	*305*
Debtors arising out of reinsurance operations	-	-	-	-	17,089	17,089
Debtors arising out of direct insurance operations	-	-	-	-	75,667	75,667
Deferred acquisition costs	-	-	-	-	38,083	38,083
Reinsurers' share of unearned premiums	-	-	-	-	7,656	7,656
Other prepayments and accrued income	-	-	-	-	2,352	2,352
Other debtors	-	-	-	-	2,660	2,660
Total	*34,555*	*81,630*	*123,497*	*93,238*	*156,936*	*489,856*

Financial assets that are past due or impaired

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

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

Debtors arising from direct insurance operations	**2017 £'000**	**2016 £'000**
Past due but not impaired financial assets:		
Past due by:		
1 to 90 days	853	869
91 to 180 days	1,238	-
More than 180 days	374	-
Past due but not impaired financial assets	**2,465**	**869**
Impaired financial assets	-	-
Neither past due nor impaired financial assets	**59,145**	**74,798**
Net carrying value	**61,610**	**75,667**

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

Notes to the financial statements
For the year ended 31 December 2017 (continued)

4 Risk and capital management *(continued)*

d) Market risk

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

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

An analysis of the Syndicate's sensitivity to interest rate changes on the result and net assets of the Syndicate is presented in the table overleaf.

Interest rate risk	**2017** **£000**	2016 £000
Impact of 50 basis point increase on result	**(3,009)**	*(5,908)*
Impact of 50 basis point decrease on result	**3,065**	*6,039*
Impact of 50 basis point increase on net assets	**(3,009)**	*(5,908)*
Impact of 50 basis point decrease on net assets	**3,065**	*6,039*

Foreign exchange risk

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

Notes to the financial statements

For the year ended 31 December 2017 (continued)

4 Risk and capital management *(continued)*

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

31 December 2017	**GBP £000**	**USD £000**	**EUR £000**	**CAD £000**	**AUD £000**	**JPY £000**	**Total £000**
Financial investments	**19,199**	**86,311**	**33,248**	**39,232**	**9,342**	**-**	**187,332**
Overseas deposits	**5,093**	**3,381**	**-**	**5,646**	**22,291**	**-**	**36,411**
Reinsurers' share of technical provisions	**23,327**	**95,394**	**4,329**	**3,270**	**1,465**	**57**	**127,842**
Insurance and reinsurance receivables	**6,539**	**62,855**	**4,830**	**1,429**	**3,035**	**168**	**78,856**
Cash and cash equivalents	**4,167**	**1,189**	**1,698**	**-**	**1,317**	**980**	**9,351**
Other assets	**12,641**	**16,818**	**2,018**	**2,947**	**2,402**	**59**	**36,885**
Total assets	**70,966**	**265,948**	**46,123**	**52,524**	**39,852**	**1,264**	**476,677**
Technical provisions	**(124,269)**	**(289,130)**	**(46,214)**	**(39,279)**	**(36,989)**	**(2,924)**	**(538,805)**
Insurance and reinsurance payables	**(2,561)**	**(26,967)**	**(5,695)**	**(263)**	**(23)**	**(37)**	**(35,546)**
Other creditors	**(884)**	**(108)**	**-**	**-**	**-**	**-**	**(992)**
Total liabilities	**(127,714)**	**(316,205)**	**(51,909)**	**(39,542)**	**(37,012)**	**(2,961)**	**(575,343)**
Net assets / (liabilities)	**(56,748)**	**(50,257)**	**(5,786)**	**12,982**	**2,840**	**(1,697)**	**(98,666)**

31 December 2016	*GBP £000*	*USD £000*	*EUR £000*	*CAD £000*	*AUD £000*	*JPY £000*	*Total £000*
Financial investments	*39,532*	*107,421*	*30,543*	*42,007*	*18,149*	*-*	*237,652*
Overseas deposits	*5,206*	*4,366*	*-*	*6,229*	*25,574*	*-*	*41,375*
Reinsurers' share of technical provisions	*22,439*	*24,992*	*3,726*	*6,784*	*1,841*	*-*	*59,782*
Insurance and reinsurance receivables	*11,984*	*66,032*	*5,671*	*2,973*	*6,037*	*364*	*93,061*
Cash and cash equivalents	*7,523*	*4,387*	*743*	*-*	*641*	*1,597*	*14,891*
Other assets	*13,779*	*21,795*	*2,645*	*2,369*	*2,383*	*124*	*43,095*
Total assets	*100,463*	*228,993*	*43,328*	*60,362*	*54,625*	*2,085*	*489,856*
Technical provisions	*(123,551)*	*(228,562)*	*(39,280)*	*(42,800)*	*(49,440)*	*(4,979)*	*(488,612)*
Insurance and reinsurance payables	*(38)*	*(4,076)*	*(3,701)*	*116*	*(435)*	*12*	*(8,122)*
Other creditors	*(4,146)*	*3,162*	*(205)*	*10*	*(23)*	*-*	*(1,202)*
Total liabilities	*(127,735)*	*(229,476)*	*(43,186)*	*(42,674)*	*(49,898)*	*(4,967)*	*(497,936)*
Net assets / (liabilities)	*(27,735)*	*(483)*	*142*	*17,688*	*4,727*	*(2,882)*	*(8,080)*

If the exchange rates of all non-GBP currencies moved by a foreseeable 5% either to the benefit or detriment of the Syndicate at the same time, the impact on both the result for the year and the members' balances would be £2.2m (2016: £2.1m).

Notes to the financial statements

For the year ended 31 December 2017 *(continued)*

4 Risk and capital management *(continued)*

e) Liquidity risk

This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. The Syndicate is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts and its ongoing expenses. The nature of the Syndicate's exposures to liquidity risk and its objectives, policies and processes for managing liquidity risk have not changed significantly from the prior year.

The Syndicate's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Syndicate's reputation. The Syndicate's approach to managing its liquidity risk is as follows:

- Forecasts are prepared and revised on a regular basis to predict cash outflows from insurance contracts and overheads over the short, medium and long term;
- The Syndicate purchases assets with durations not greater than its estimated insurance contract liabilities and expense outflows;
- Assets purchased by the Syndicate are required to satisfy specified marketability requirements;
- The Syndicate maintains cash and liquid assets to meet daily calls; and
- The Syndicate regularly updates its contingency funding plans to ensure that adequate liquid financial resources are in place to meet obligations as they fall due in the event of reasonably foreseeable abnormal circumstances.

The table below summarises the maturity profile of the Syndicate's financial assets and liabilities based on the estimated timing of claims payments and other undiscounted contractual obligations. This analysis excludes the collection of the Syndicate's retained losses from its capital provider at the forecast closure dates for each year of account.

31 December 2017	Carrying amount	Total cash flows	Less than 1 year	1-3 years	3-5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	2,143	2,143	2,143	-	-	-
Debt securities and other fixed income securities	185,189	185,189	4,520	14,855	44,333	121,481
Overseas deposits	36,411	36,411	36,411	-	-	-
Cash at bank and in hand	9,351	9,351	9,351	-	-	-
Debtors arising out of direct insurance operations	61,610	61,610	61,610	-	-	-
Debtors arising out of reinsurance operations	13,157	13,157	13,157	-	-	-
Accrued reinsurance recoveries	4,089	4,809	4,089	-	-	-
Reinsurers share of outstanding claims	106,417	106,417	48,909	37,943	10,627	8,938
Reinsurers' share of unearned premiums	21,425	-	-	-	-	-
Deferred acquisition costs	29,877	-	-	-	-	-
Other debtors	5,410	5,410	5,410	-	-	-
Accrued income	1,598	1,598	1,598	-	-	-
Total assets	**476,677**	**426,095**	**187,198**	**52,798**	**54,960**	**130,419**
Gross claims reserves	(411,211)	(411,211)	(144,889)	(156,428)	(58,493)	(51,401)
Creditors arising out of direct insurance operations	(5,667)	(5,667)	(35,546)	-	-	-
Creditors arising out of reinsurance operations	(29,879)	(29,879)	(29,879)	-	-	-
Other creditors	(992)	(992)	(992)	-	-	-
Provision for unearned premium	(127,594)	-	-	-	-	-
Total liabilities	**(575,343)**	**(447,749)**	**(211,306)**	**(156,428)**	**(58,493)**	**(51,401)**
Net assets / (liabilities)	**(98,666)**	**(21,654)**	**(24,108)**	**(103,630)**	**(3,533)**	**79,018**

Notes to the financial statements
For the year ended 31 December 2017 (continued)

4 Risk and capital management *(continued)*

e) Liquidity risk *(continued)*

31 December 2016	Carrying amount	Total cash flows	Less than 1 year	1-3 years	3-5 years	More than 5 years
	£000	£000	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	1,236	1,236	1,236	-	-	-
Debt securities and other fixed income securities	236,416	236,416	1,835	12,283	46,847	175,451
Overseas deposits	41,375	41,375	41,375	-	-	-
Cash at bank and in hand	14,891	14,891	14,891	-	-	-
Debtors arising out of direct insurance operations	75,667	75,667	75,667	-	-	-
Debtors arising out of reinsurance operations	17,089	17,089	17,089	-	-	-
Accrued reinsurance recoveries	305	305	305	-	-	-
Reinsurers share of outstanding claims	52,126	52,126	21,550	16,726	6,146	7,704
Reinsurers' share of unearned premiums	7,656	-	-	-	-	-
Deferred acquisition costs	38,083	-	-	-	-	-
Other debtors	2,660	2,660	2,660	-	-	-
Accrued income	2,352	2,352	2,352	-	-	-
Total assets	**489,856**	**444,117**	**178,960**	**29,009**	**52,993**	**183,155**
Gross claims reserves	(353,514)	(353,514)	(114,130)	(143,416)	(55,340)	(40,628)
Creditors arising out of direct insurance operations	(91)	(91)	(91)	-	-	-
Creditors arising out of reinsurance operations	(8,031)	(8,031)	(8,031)	-	-	-
Other creditors	(1,202)	(1,202)	(1,202)	-	-	-
Provision for unearned premium	(135,098)	-	-	-	-	-
Total liabilities	**(497,936)**	**(362,838)**	**(123,454)**	**(143,416)**	**(55,340)**	**(40,628)**
Net assets / (liabilities)	**(8,080)**	**81,279**	**55,506**	**(114,407)**	**(2,347)**	**142,527**

f) Operational risk

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

g) Regulatory (including Conduct) risk

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

Conduct Risk is the risk that customers experience poor outcomes in their engagement with ASL and is part of Regulatory Risk. This risk applies to all of the Syndicate's business but is particularly focused where the Syndicate insures retail risks especially using delegated underwriting. This has been an area of particular emphasis by the FCA and by Lloyd's. ASL has a Product Governance Committee that oversees its response to

Notes to the financial statements

For the year ended 31 December 2017 (continued)

4 Risk and capital management *(continued)*

these requirements and operates a conduct framework designed to ensure that appropriate outcomes are delivered to customers.

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

h) Capital management (excluding Funds at Lloyd's)

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

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

Capital framework at Lloyd's

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

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

Lloyd's capital setting process

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

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

Provision of capital by members

Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), assets held and managed within a syndicate (Funds in Syndicate), or as the member's share of the members' balances on each syndicate on which it participates. Accordingly, all of the assets less liabilities of the Syndicate, as represented in the member's balances reported on the Statement of Financial Position on page 14 and 15, represent resources available to meet members' and Lloyd's capital requirements.

Funds at Lloyd's

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

Notes to the financial statements

For the year ended 31 December 2017 (continued)

Managing Agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses through a formal process controlled by Lloyd's.

5 Segmental analysis

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

2017	**Gross Premiums Written £000**	**Gross Premiums Earned £000**	**Gross Claims Incurred £000**	**Reinsurance Balance £000**	**Net Operating Expenses £000**	**Underwriting Result £000**
Direct insurance:						
Accident and health	**32,307**	**33,949**	**(18,691)**	**(829)**	**(14,855)**	**(426)**
Motor (other classes)	**33**	**44**	**(4,844)**	**4,058**	**(16)**	**(758)**
Marine aviation and transport	**27,081**	**27,715**	**(28,797)**	**(3,180)**	**(8,396)**	**(12,658)**
Fire and other damage to property	**51,650**	**69,205**	**(112,031)**	**35,857**	**(27,916)**	**(34,885)**
Third party liability	**20,138**	**21,033**	**(14,805)**	**(480)**	**(8,131)**	**(2,383)**
Pecuniary loss	**25,104**	**7,552**	**(3,301)**	**(541)**	**(5,194)**	**(1,484)**
	156,313	**159,498**	**(182,469)**	**34,885**	**(64,508)**	**(52,594)**
Reinsurance acceptances	**55,879**	**51,577**	**(59,684)**	**380**	**(13,922)**	**(21,649)**
Total	**212,192**	**211,075**	**(242,153)**	**35,265**	**(78,430)**	**(74,243)**

2016	Gross Premiums Written £000	Gross Premiums Earned £000	Gross Claims Incurred £000	Reinsurance Balance £000	Net Operating Expenses £000	Underwriting Result £000
Direct insurance:						
Accident and health	*29,797*	*29,566*	*(15,053)*	*(920)*	*(13,145)*	*448*
Motor (other classes)	*35*	*14*	*(6,539)*	*491*	*(5)*	*(6,039)*
Marine aviation and transport	*27,318*	*14,628*	*(12,597)*	*(2,081)*	*(5,429)*	*(5,479)*
Fire and other damage to property	*78,288*	*71,142*	*(28,374)*	*(7,006)*	*(27,991)*	*7,771*
Third party liability	*25,300*	*27,103*	*(19,631)*	*454*	*(10,241)*	*(2,315)*
Pecuniary loss	*7,498*	*4,663*	*(506)*	*444*	*(3,291)*	*1,310*
	168,236	*147,116*	*(82,700)*	*(8,618)*	*(60,102)*	*(4,304)*
Reinsurance acceptances	*69,613*	*53,515*	*(50,950)*	*(5,151)*	*(12,365)*	*(14,951)*
Total	*237,849*	*200,631*	*(133,650)*	*(13,769)*	*(72,467)*	*(19,255)*

Commissions on direct insurance gross premiums earned during 2017 were £42,464k (2016 - £48,440k).

All premiums were written in the UK.

6 Currency rates of exchange

The rates of exchange applied to GBP in these accounts are:

	31 December 2017 Closing Rate	**31 December 2017 Average Rate**	31 December 2016 Closing Rate	31 December 2016 Average Rate
Australian Dollar	**1.7302**	**1.6805**	*1.7102*	*1.8257*
Canadian Dollar	**1.6985**	**1.6714**	*1.6553*	*1.7968*
Euro	**1.1260**	**1.1416**	*1.1717*	*1.2246*
Japanese Yen	**152.2310**	**144.5038**	*144.1870*	*147.6823*
US Dollar	**1.3513**	**1.2889**	*1.2325*	*1.3557*

Notes to the financial statements

For the year ended 31 December 2017 (continued)

7 Movement in prior year's provision for claims outstanding

The Syndicate has applied a similar approach at the current year end to that applied at the previous year end in establishing the technical provisions for claims outstanding reserves and reinsurers' share thereof. Included within net claims incurred of £165,799k (2016 - £121,917k) is a deterioration of £11,547k (2016 – deterioration of £6,859k) to the claims reserves established at the prior year end, principally due to natural catastrophes (Hurricanes Harvey, Irma, Maria, Mexico Earthquake and Californian Wildfires) and adverse attritional development in prior year reserves on the Property and Marine classes.

8 Net operating expenses

	2017 **£000**	2016 £000
Brokerage and commissions	**50,384**	*55,095*
Change in deferred brokerage	**3,622**	*(3,627)*
Other acquisition costs	**144**	*357*
Change in deferred other acquisition costs	**3,171**	*(4,269)*
Administrative expenses	**25,459**	*24,911*
Reinsurers' commissions and profit participations	**(4,350)**	-
	78,430	*72,467*

Administrative expenses include:

	2017 **£000**	2016 £000
Auditors' remuneration		
Fees payable to the Syndicate's auditor, KPMG LLP for the audit of the Syndicate annual accounts	**218**	*159*
Fees payable to KPMG LLP for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	**67**	*65*
Other assurance services	**-**	-
	285	*224*
Member's standard personal expenses (Lloyd's subscriptions, New Central Fund contributions & Managing Agent's fees)	**4,959**	*3,550*

9 Staff numbers and costs

All staff (including directors) are employed by an AmTrust group service company, either AmTrust Central Bureau of Service Limited (CBS), AmTrust Syndicate Holdings Limited (ASH) or AmTrust Management Services Limited (AMSL). The following amounts were recharged to the Syndicate in respect of staff costs:

	2017 **£000**	2016 £000
Wages and salaries	**9,129**	*10,236*
Social security costs	**928**	*1,361*
Other pension costs	**551**	*760*
	10,608	*12,357*

Notes to the financial statements

For the year ended 31 December 2017 (continued)

9 Staff numbers and costs *(continued)*

The average number of employees (including directors) employed by group service companies but working for the Syndicate during the year was as follows:

	2017 Number	2016 Number
Administration and finance	**21**	*6*
Underwriting	**30**	*31*
Technical support	**49**	*39*
	100	*76*

10 Emoluments of the directors of AmTrust Syndicates Limited and the active underwriter

Recharges of £655,390 (2016 - £474,010) were made to the Syndicate in respect of emoluments and pension costs paid to its directors. Recharges of £229,348 (2016 - £285,226) were made to the Syndicate in respect of emoluments and pension costs of the active underwriter.

11 Investment return

	2017 £000	2016 £000
Investment income		
Interest and dividend income	**7,911**	*7,607*
Gains on the realisation of investments	**1,493**	*3,184*
	9,404	*10,791*
Investment expenses and charges		
Investment management expenses	**(356)**	*(348)*
Losses on disposal of investments	**(1,438)**	*(1,343)*
	(1,794)	*(1,691)*
Net unrealised gains on investments	**1,012**	*3,220*
Net unrealised losses on investments	**(1,651)**	*(2,470)*
	(639)	*750*
Total investment return	**6,971**	*9,850*
On financial assets at fair value through profit and loss	**7,327**	10,198
	7,327	10,198
Investment management fees	**(356)**	(348)
Total investment return	**6,971**	9,850

12 Other income / expenses

Other income / expenses represents the profit or loss on foreign exchange

	2017 £000	2016 £000
Profit on exchange	**2,562**	5,356

Notes to the financial statements
For the year ended 31 December 2017 (continued)

13 Other financial Investments

	Carrying Value		Cost	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Shares and other variable yield securities and units in unit trusts	**2,143**	*1,236*	**2,143**	*1,236*
Debt securities and other fixed income securities	**185,189**	*236,416*	**185,874**	*235,593*
	187,332	*237,652*	**188,017**	*236,829*
Financial assets measured at fair value through profit and loss	**187,332**	*237,652*	**188,017**	*236,829*
Financial assets measured at amortised cost	**-**	-	**-**	-
	187,332	*237,652*	**188,017**	*236,829*

Shares and other variable yield securities and units in unit trusts and debt securities and other fixed income securities are analysed between the three levels in the fair value hierarchy as follows:

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Shares and other variable yield securities and units in unit trusts	**-**	**2,143**	**-**	**2,143**
Listed debt securities and other fixed income securities	**28,148**	**157,041**	**-**	**185,189**
	28,148	**159,184**	**-**	**187,332**

2016	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	-	*1,236*	-	*1,236*
Listed debt securities and other fixed income securities	*730*	*235,686*	-	*236,416*
	730	*236,922*	-	*237,652*

In accordance with the amended FRS 102, included in the level 1 category are financial assets that are measured by reference to published quotes in an active market where quoted prices are readily available from an exchange and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Included in the level 2 category are financial assets measured using a valuation technique based on assumptions that are supported by prices from observable current market transactions.

The level 3 category includes financial assets measured using a valuation technique based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are based on available market data but are based on assumptions that market participants would use in pricing the asset.

Notes to the financial statements

For the year ended 31 December 2017 (continued)

14 Debtors arising out of direct insurance operations

	2017	2016
	£000	£000
Due within one year		
Intermediaries	**61,610**	75,667

15 Debtors arising out of reinsurance operations

	2017	2016
	£000	£000
Due within one year	**17,246**	*17,394*

16 Other debtors

	2017	2016
	£000	£000
Balance with other group undertakings	**4,898**	*2,149*
Other debtors	**512**	*511*
	5,410	*2,660*

17 Overseas deposits

Overseas deposits are lodged as a condition of conducting business in certain countries and are managed by Lloyd's centrally or by investment managers appointed on their behalf. The assets contained within the overseas deposits are as follows:

2017	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Shares and other variable yield securities and units in unit trusts	**3,782**	**-**	**-**	**3,782**
Listed debt securities and other fixed income securities	**1,877**	**30,729**	**-**	**32,606**
Cash at bank and in hand	**23**	**-**	**-**	**23**
	5,682	**30,729**	**-**	**36,411**

2016	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Shares and other variable yield securities and units in unit trusts	*4,541*	-	-	*4,541*
Listed debt securities and other fixed income securities	*3,251*	*33,532*	-	*36,783*
Cash at bank and in hand	*51*	-	-	*51*
	7,843	*33,532*	-	*41,375*

The investments and cash have not been included on the statement of financial position within Investments or Cash at bank and in hand as they are not under the direct control of the Managing Agent. Cash included in Overseas Deposits has not been included with Cash and cash equivalents (Note 22) as it is not readily available for use by the Syndicate.

Notes to the financial statements

For the year ended 31 December 2017 (continued)

18 Deferred acquisition costs

	2017 £000	2016 £000
Balance at 1 January	**38,083**	*26,175*
Incurred costs deferred	**46,178**	*55,452*
Amortisation	**(52,972)**	*(47,556)*
Effect of movements in exchange rates	**(1,412)**	*4,012*
Balance at 31 December	**29,877**	*38,083*

19 Technical provisions

	2017			2016		
	Gross provisions £000	**Reinsurance assets £000**	**Net £000**	Gross provisions £000	Reinsurance assets £000	Net £000
Incurred claims outstanding						
Claims notified	**188,931**	**(35,363)**	**153,568**	*147,388*	*(23,849)*	*123,539*
Claims incurred but not reported	**164,583**	**(16,763)**	**147,820**	*160,716*	*(22,547)*	*138,169*
Balance at 1 January	**353,514**	**(52,126)**	**301,388**	*308,104*	*(46,396)*	*261,708*
Movement in provision	**72,842**	**(58,992)**	**13,850**	*2,648*	*(182)*	*2,466*
Exchange adjustments	**(15,145)**	**4,701**	**(10,444)**	*42,762*	*(5,548)*	*37,214*
Balance at 31 December	**411,211**	**(106,417)**	**304,794**	*353,514*	*(52,126)*	*301,388*
Claims notified	**212,445**	**(55,468)**	**156,977**	*188,931*	*(35,363)*	*153,568*
Claims incurred but not reported	**198,766**	**(50,949)**	**147,817**	*164,583*	*(16,763)*	*147,820*
Balance at 31 December	**411,211**	**(106,417)**	**304,794**	*353,514*	*(52,126)*	*301,388*
Unearned premiums						
Balance at 1 January	**135,098**	**(7,656)**	**127,442**	*80,023*	*(4,535)*	*75,488*
Premiums written in year	**212,192**	**(55,843)**	**156,349**	*237,849*	*(27,711)*	*210,138*
Premiums earned in year	**(211,075)**	**41,089**	**(169,986)**	*(200,631)*	*25,502*	*(175,129)*
Exchange adjustments	**(8,621)**	**985**	**(7,636)**	*17,857*	*(912)*	*16,945*
Balance at 31 December	**127,594**	**(21,425)**	**106,169**	*135,098*	*(7,656)*	*127,442*

Notes to the financial statements
For the year ended 31 December 2017 (continued)

20 Claims development

Claims development is shown in the tables below on an underwriting year basis both gross and net of reinsurance ceded. Balances have been translated at 31 December 2017 rates of exchange.

Underwriting year - gross	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Estimate of gross incurred claims								
At the end of underwriting year	83.973	45,384	55,011	44,875	32,759	65,632	59,937	
One year later	163,402	103,119	111,908	101,551	96,813	217,634		
Two years later	170,712	122,283	121,632	106,473	109,462			
Three years later	187,550	126,849	115,439	114,887				
Four years later	203,503	130,356	119,077					
Five years later	203,566	127,588						
Six years later	202,589							
Less: gross claims paid	166,480	105,830	87,347	70,184	73,708	79,702	9,302	
Gross claims reserve	36,109	21,758	31,730	44,703	35,754	137,932	50,635	358,621
Gross claims reserve for 2010 and prior years	52,590							52,590
Gross unearned portion of claims								
Gross claims reserve	88,699	21,758	31,730	44,703	35,754	137,932	50,635	411,211

Underwriting year - net	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Estimate of gross incurred claims								
At the end of underwriting year	69,441	37,411	46,038	42,144	30,948	60,097	40,071	
One year later	141,820	84,127	101,761	95,172	90,606	163,580		
Two years later	150,489	98,522	110,857	100,050	102,457			
Three years later	167,216	102,249	108,644	106,296				
Four years later	174,462	103,030	112,273					
Five years later	175,217	104,143						
Six years later	171,778							
Less: net claims paid	143,030	85,620	80,818	69,936	71,789	74,663	8,145	
Net claims reserve	28,748	18,523	31,455	36,360	30,668	88,917	31,926	266,597
Net claims reserve for 2010 and prior years	38,197							38,197
Net unearned portion of claims								
Net claims reserve	66,945	18,523	31,455	36,360	30,668	88,917	31,926	304,794

Notes to the financial statements

For the year ended 31 December 2017 (continued)

21 Financial liabilities at amortised cost

	2017 £000	2016 £000
Creditors arising out of direct insurance operations	**5,667**	*91*
Creditors arising out of reinsurance operations	**29,879**	*8,031*
Other creditors	**992**	*1,202*
Total financial liabilities at amortised cost	**36,538**	*9,324*

22 Cash and cash equivalents

	2017 £000	2016 £000
Cash at bank and in hand	**9,351**	*14,891*
Total cash and cash equivalents	**9,351**	*14,891*

23 Amounts held within Premium Trust Funds

A large part of the Syndicate's assets is required to be held in trust funds. The total amount concerned as at 31 December 2017 was £282,419k (2016: £382,679k). These assets comprise all the Syndicate's investments, cash and overseas deposits together with certain debtors net of creditors. The Syndicate writes business in certain jurisdictions that require the deposit of cash and investments in locally held trust funds therefore preventing the free transfer of cash between currencies and locations.

24 Reinsurance collateral

At the statement of financial position date collateral of $40m was held in a third party trust fund in relation to an outwards reinsurance contract that the Syndicate is a party to. Collateral held in the third party trust fund is not recognised as an asset pertaining to the Syndicate but is available for immediate drawdown in line with the contractual terms.

25 Related parties

Lloyd's market regulations require that a managing agent be responsible for engaging underwriting staff and managing the affairs of each syndicate at Lloyd's on behalf of the Syndicate members. The Syndicate's managing agent was AmTrust at Lloyd's Limited ('ATL') until novation on 3 March 2017 to AmTrust Syndicates Limited ('ASL').

ATL was the managing agent of Syndicate 44 and Syndicate 2526 until novation to ASL on 3 March 2017 and 23 June 2017 respectively. ASL was the managing agent of Syndicates 1861, 5820 and 779 throughout the period.

AmTrust entities

In 2017 and 2016 a large proportion of the expenses incurred in operating the Syndicate were incurred by group service companies and were then recharged under intragroup service agreements with ASL and ATL on a basis that reflected the Syndicate's usage of resources. Group recharges are charged on a cost basis and predominantly represent recharges of staff costs for employees working on syndicate business as well as other associated administrative expenses including accommodation, professional fees and information technology.

Notes to the financial statements
For the year ended 31 December 2017 (continued)

These recharges, included within amounts disclosed as net operating expenses, acquisition costs and claims incurred were as follows:

	2017 £'m	2016 £'m
AmTrust Central Bureau of Services Limited (formerly ANV Central Bureau of Services Limited – both 'CBS')	12.0	-
AmTrust Syndicate Holdings Limited ('ASH')	6.6	21.2
Total expenses recharged	**18.6**	**21.2**

The following amounts were outstanding at 31 December 2017 and 31 December 2016:

	2017 £'m	2016 £'m
CBS	-	-
ASH	(0.7)	0.2
Total amount outstanding (receivable) / payable in relation to group recharges	(0.7)	0.2

Included within the recharges are amounts relating to the remuneration of directors of ASL. Profit-related remuneration for the Syndicate's Active Underwriters and ASL directors is charged to the Syndicate.

The following directors of ASL during the period were also directors of CBS during the period: P Dewey, J E Cadle, M G Caviet and J M Hamilton (resigned from ASL Board 31 December 2017).

The following directors of ASL during the period were also directors of ASH during the period: P Dewey, J E Cadle and M G Caviet.

Member's expenses, being agent's fees and profit commission payable to the Managing Agent, and subscriptions and central fund contributions payable to Lloyd's, are charged on an underwriting year of account, rather than a calendar year basis. For the 2017 underwriting year of account, ASL charged an agent's fee of 1% of stamp capacity (2016: 1%). Within the financial statements, fees of £2.6m (2016 £2.0m) have been charged. At 31 December 2017 there are no unpaid fees (2016: £nil).

AmTrust Syndicate Services Limited, a subsidiary of AmTrust Syndicate Holdings Limited, acts as a means of introducing business to Syndicate 1206, from non-Lloyd's brokers, under a binding authority arrangement. During the year £nil (2015 - £nil) was processed through this company.

The following directors of ASL during the period were also directors of AmTrust Syndicate Services Limited during the period: P Dewey and J E Cadle.

The following directors of ASL during the period were also directors of AmTrust Syndicate Holdings Limited during the period: P Dewey, J E Cadle and M G Caviet.

AmTrust Underwriting Limited, a subsidiary of AmTrust Syndicate Holdings Limited, is an insurance intermediary authorised by the FCA and produces Accident & Health and Commercial Combined business to the Syndicate. Premiums amounting to £2,415k (2016 - £2,324k) were received from this company during 2017.

The following directors of ASL during the period were also directors of AmTrust Underwriting Limited during the period: P Dewey and J E Cadle.

AmTrust Claims Services Inc. (ACS), a subsidiary of AmTrust Syndicate Holdings Limited, is a claims management company in California and adjusts claims on behalf of the Syndicate and others on the Liability book of business. The company was dissolved in August 2017.

The following directors of ASL during the period were also directors of ACS during the period: P Dewey, J E Cadle, M G Caviet and M A Sibthorpe (resigned 8 December 2017).

The Syndicate acts a consortium leader, with ASL as the consortium manager, for a Marine Hull consortium participated upon by Syndicate 1861, another syndicate managed by ASL and whose capital is commonly provided by AmTrust Corporate Member Limited a subsidiary of AmTrust Lloyd's Holdings Limited, a common

Notes to the financial statements

For the year ended 31 December 2017 (continued)

intermediate parent company with ATL. During the period £13.3m (2016: £nil) was written by the Syndicate as consortium leader on behalf of Syndicate 1861.

Syndicate capital

Syndicate 1206's entire capital is provided by AmTrust Corporate Member Limited, a subsidiary of AmTrust Lloyd's Holdings Limited.

The following directors of ASL during the period were also directors of AmTrust Corporate Member Ltd during the period: P Dewey, J E Cadle and J M Hamilton (resigned from ASL Board 31 December 2017).

The following directors of ASL during the period were also directors of ANV Corporate Name Limited during the period: P Dewey, J E Cadle and J M Hamilton (resigned from ASL Board 31 December 2017).

The ultimate holding company is AmTrust Financial Services Inc. (AFSI), a company incorporated in Delaware and listed on NASDAQ Global Market. A copy of AFSI's consolidated accounts can be obtained from that company's registered office, which is located at 59 Maiden Lane, 43rd Floor, New York, New York, USA.

26 Post Balance Sheet Events

a) Cash Call and Distribution

The following amounts are proposed to be called / (paid) from / to member's personal reserve funds as part of the normal distribution process.

	2017	2016
	£000	£000
2015 Year of account (2014 Year of account)	**16,247**	*(25,887)*