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SYNDICATE 1200

Argo Managing Agency Limited
Report and Syndicate Annual Accounts
For the year ended 31 December 2016

Syndicate 1200

ArgoGlobal
Member Argo Group

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Section 1

Report and Syndicate Annual Accounts

Directors and Advisors

Managing agent's registered office	Argo Managing Agency Limited Exchequer Court 33 St Mary Axe London EC3A 8AA
Managing agent's registered number	03768610
Directors	A P Latham (Chairman) D Argyle J S Bullock P L Burrows P J Grant D J Harris D M Lang K A Nealon B C Ritchie M E Watson III
Syndicate	Argo Syndicate 1200
Active underwriter	B C Ritchie
Bankers	Barclays Bank Plc 1 Churchill Place London E14 5HP
Investment managers	Conning Asset Management Ltd 24 Monument Street London EC3R 8AJ
Auditors	Ernst & Young LLP Statutory Auditor 25 Churchill Place Canary Wharf London E14 5EY

Chairman's Statement

I am pleased to present to you my first report as Chairman of Argo Managing Agency Limited ('AMA') and its managed Syndicate 1200, since taking over as Chairman from John Spencer in November 2016.

Results summary

Gross written premiums increased from £421.5m in 2015 to £514.3m in 2016, yielding a £3.3m profit compared to £26.4m in the previous year. The combined ratio increased from 91.8% to 102.3%

The underlying performance in 2016 has been impacted by the worst year of weather events in the US for over a decade. There were a highly unusual number of mini catastrophe events in the United States and for primary property insurance underwriters like Syndicate 1200, the effect of record Texas hailstorms, major flooding in Louisiana and Hurricane Matthew has impacted underwriting results in 2016. The market in Lloyd's continues to be very challenging for underwriters with an abundance of capacity in the market, the increasing cost of acquiring business and challenges to the relevance of Lloyd's from overseas insurance hubs. We believe all these factors strengthen our belief in the strategy that the Syndicate has had in place for the last 4 years of portfolio and geographic diversification combined with realistic pricing and sensible underwriting choices. Without these strategies I believe the combined ratio would have been higher.

Although as stated the market conditions in 2016 continued to be challenging we are pleased to report an improved return to capital providers from the 2014 and Prior Years of Account at 8.13% from that forecast last year (4.77%). Return on capital (100% Economic Capital Assessment) on a GAAP basis for the Calendar Year 2016 was a disappointing 1.3% (2015: 12.4%) following the events described above.

Portfolio & expertise

During 2016 we continued the task of optimising the blend of business written by the Syndicate with a view to managing volatility and improving capital efficiency, whilst offering a comprehensive range of coverage to our brokers.

Market conditions are persistently challenging, and for yet another year there were few areas where pricing was not subject to continued downward pressure particularly in short tail lines of business. We have maintained our commitment to underwriting excellence and discipline in difficult market conditions.

We took the decision during 2016 to close our Aerospace division, this was as a result of year on year double digit rate reductions despite increased levels of loss activity and with the market showing no sign of a correction we felt we were left with little choice other than to close the account.

More underwriting talent has been recruited to reinforce our market profile in key lines of business. In Marine lines we have strengthened the level and depth of talent we have also added a Livestock team to complement our specialty offering and have expanded and strengthened our Dubai platform diversifying the lines of business offered to the local market. We have also maintained our investment in the future through our graduate programme, now in its fifth year and which continues to create a pipeline of bright well trained members of staff.

Operations

The continued emphasis we place on efficiency of operations continues to bring benefits in terms of cost and quality and is helping towards the management of our expense ratio. We participate in cost benchmarking exercises, in which the Syndicate compares favourably with our Lloyd's peers, but are conscious that we need to continue to investigate ways of managing our expense base as we look to further leverage the infrastructure we have in place.

Our investment in the Claims function continues to pay dividends, with AMA's performance continuing to improve in the Lloyd's published Claims Metrics.

Third party capital

We are most grateful to all our capital providers for their continued support of the Syndicate.

Staff commitment

2016 has been another demanding year for staff in all areas of the business, but much progress has been made; I would like to congratulate staff on the successes of the year and to commend them for their continued commitment and enthusiasm. Once again the extent to which staff have found the time to balance the demands of their roles with involvement in a wide range of community volunteering and charitable fund-raising initiatives is particularly commendable.

On behalf of all the capital providers and the Board I would like to thank John Spencer who stood down as Chairman of the Agency this year after 8 years of service. His contribution has been invaluable in the success of the Syndicate and as a key supporter of the charitable initiatives undertaken by Argo and individual staff members.

Tony Latham
Chairman

16 March 2017

Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report for the year ended 31 December 2016.

Reporting basis

These syndicate annual accounts are prepared using the annual basis of accounting, as required by Statutory Instrument 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. The underwriting results have been determined on an annual accounting basis.

Separate underwriting year accounts, prepared on the three year funded basis, show the cumulative result for the 2014 closed underwriting account, and are set out on pages 48 to 64.

Principal activity and review of the business

The principal activity of the business is that of underwriting general insurance risks, conducted through the Lloyd's market in the United Kingdom on behalf of the members of Syndicate 1200.

Calendar year results

The table below sets out the calendar year results of Syndicate 1200:

Change %	**2016** **£m**	2015 £m
Gross written premium	**514.3**	421.5
Profit	**3.3**	26.4
Loss ratio %	**61.6%**	51.6%
Expense ratio %	**40.7%**	40.2%
Combined ratio %	**102.3%**	91.8%

Underwriting years of account summary

The tables below show Syndicate 1200's actual (A) results for the closed 2014 year of account and the forecast (F) results for open years of account 2015 and 2016:

Year of account summary	2016 F* £m	2015 F £m	2014 A £m
Stamp capacity	425.0	350.0	349.8
Stamp premium income	424.7	377.5	299.5
Stamp utilisation	99.9%	107.8%	85.6%
Gross written premium	573.1	511.1	395.0
Profit	*	38.5 to 3.5	28.4
Return/(loss) on stamp	*	11.0% to 1.0%	8.1%

*A formal forecast range for the 2016 year of account will be released at the time of publishing results for the 3 months to 31 March 2017.

2014 YEAR OF ACCOUNT – CLOSING YEAR

We are pleased to report a profit for the 2014 closed year of account with a return on capacity of 8.1% and a profit of £28.4m. This is at the upper end of the forecast range at last year end (0.5% to 10.5%).

2015 AND 2016 YEARS OF ACCOUNT – OPEN

The 2015 year of account, whilst another benign year for large catastrophe events, is impacted by a number of smaller US weather events. This is mainly attributable to the Property division, in particular the Direct & Facultative business, which has experienced an increased level of weather related losses and given the ongoing competitive pressure in premium rates there has been an increase in the overall impact in profitability.

This is partly offset by continued positive development in the Energy book which has seen a lower level of large lossest this year. The Aviation book continued to be impacted by market losses during the calendar year, and following unsustainable rate reductions continuing through 2015 and 2016 the Syndicate made the decision to exit this market and close the division from mid-year 2016.

2016 was another year without a single large catastrophe event. We did however see an unprecedented level of small weather events which include record Hailstorms in Texas, unprecedented flooding in Louisiana and Hurricane Matthew which impacted the primary insurance markets more than the reinsurance markets. Competition in the marketplace continues to increase in what was already an intensely aggressive market, thus maintaining the pressure on premium rates. This is, to a large extent, apparent across the market but pricing pressure is most severe in short tail books in particular the Property, Marine & Energy divisions. The cost of acquiring the business has increased as the number of broker facilities in the market continues to develop and the relative amount of open market business declines. Without a major catastrophe loss in 2016 and further capacity entering the marketplace we do not expect market conditions to improve in 2017. These conditions further emphasise the need for underwriting discipline. We believe our strategy of focusing on sections of the market where there is adequate underwriting margin and diversifying our distribution platforms into Singapore, Shanghai, and the MENA will help to combat the pressure. We will broaden our distribution into broker portfolio channels on a selective basis and continue to make effective use of the Argo Group network. This we believe will ultimately prove successful for all of our capital providers.

The syndicate's gross premium income by class of business comprises:

Year of account	2016 F %	2015 F %	2014 A %
Short-tail			
International Property Treaty	1.4	1.9	2.0
Marine Cargo	4.0	3.9	3.4
Aviation	1.9	4.0	4.1
Space	0.4	1.0	1.5
Yachts & Hull	4.9	3.3	2.2
Offshore Energy	6.6	6.0	8.3
Onshore Energy	4.4	4.9	5.2
Mortgage Impairment	0.6	0.6	0.6
North American and International Property Binding Authorities	8.4	9.3	7.9
Personal Accident	10.0	9.6	8.9
Contingency	1.4	0.9	–
Property Facultative	17.6	18.6	19.7
Real Estate Owned & Force Placed	3.8	4.5	5.6
	65.4	68.5	69.4

Report of the Directors of the Managing Agent

Year of account	2016 F %	2015 F %	2014 A %
Longer-tail			
Directors and Officers	3.1	3.3	2.9
Political Risks	3.1	0.8	1.4
General Liability	5.5	6.8	9.6
International Casualty Treaty Liability	2.7	2.2	1.7
International Casualty Treaty Motor	1.6	2.0	1.7
UK SME Package Business	1.7	1.4	0.4
Medical Malpractice	1.9	1.7	1.6
Professional Indemnity	10.5	11.9	11.3
Marine Liability	4.5	1.4	–
	34.6	31.5	30.6
	100.0	100.0	100.0

The syndicate's gross premium income by geographical region comprises:

Year of account	2016 F %	2015 F %	2014 A %
North America	44.9	48.3	44.6
Caribbean and Latin America	4.5	3.8	3.6
UK	11.7	12.1	10.3
Rest of Europe	7.0	5.6	5.3
Oceania	1.7	3.8	3.9
Rest of the world	30.2	26.4	32.3
Total	100.0	100.0	100.0

Reinsurance programme purchase

Argo purchases reinsurance to assist in achieving its strategic objectives by managing risk aggregation and improving the return on capital of the syndicate as a whole. The use of proportional and excess of loss protection varies by class depending on the characteristics and performance of the line of business. The 2016 reinsurance strategy remained in line with 2015 focusing on further reducing the ceded margin whilst remaining within the syndicate's risk appetite for each division and class. The Syndicate again took advantage of the continuing softening market making significant savings and expanding terms and conditions. The syndicate continued to place the reinsurance programme with high quality reinsurers, nearly all being with Tier 1 reinsurers rated A- to AAA by Standard & Poor's, with any below this rating providing collateral for their full exposure in the form of a Trust Fund

Investments

Allocation of investments is conservative and is predominantly in cash and fixed interest securities of high credit quality with little exposure to volatile asset classes. This satisfies the syndicate's liquidity requirements in respect of routine claim and expense payments. In addition, Lloyd's centrally manages various overseas funds and deposits on behalf of the syndicate. However, by far the largest element of the syndicate's funds 74.0% (2015: 65.9%) are held in fixed interest portfolios that are managed by Conning Investment Management Ltd which therefore has a dominant influence on the overall investment return. All investments are managed within risk constraints and duration, liquidity and credit limits (average must be A/A2 or above) are approved by the Board of Directors of the Managing Agency. The investment benchmarks set for the fixed income portfolios are predominantly a combination of the Barclays 1-3 year government and corporate indices and the investment manager's performance is compared to these benchmarks.

	2016	2015
	%	%
Sterling	**2.2**	1.2
Euros	**0.9**	0.5
United States dollars	**1.6**	1.1
Canadian dollars	**1.0**	2.0

Foreign exchange exposure policy

The aim of our policy is to minimise foreign exchange volatility. To achieve this, we aim to match our assets and liabilities in currency. It is Syndicate policy to holds its' surplus assets (profits) in US Dollars. The Syndicate uses a derivative in the form of a forward currency contract to limit exposure to adverse movement in non US$ currencies.

Principal risks and uncertainties

Note 26 in the notes to the financial statements provides an analysis of the key insurance and financial risks to which the syndicate is exposed.

Research and development

The Syndicate has not participated in any research and development activity during the period.

Donations

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

Outlook

Continued low investment returns, inflationary pressure on claims and an increasingly competitive underwriting environment are once again issues that will ensure 2017 is yet another challenging year for the Lloyd's market and Syndicate1200. Our strategy to grow the book where there is adequate margin and emphasise our leadership competence in wordings, claims and pricing will continue into 201, combined with the strategy to broaden our access to sources of distribution either geographically and or, via different access methods into targeted broking houses, will continue into 2017.

Report of the Directors of the Managing Agent

Directors and officers serving in the year

The directors of the managing agent, who served during the year ended 31 December 2016 and to the date of this report, were:

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

*Appointed as independent non-executive Chairman November 2016.

Annual general meeting

The directors do not propose to hold an annual general meeting for the syndicate. If any members' agent or direct corporate supporter of the syndicate wishes to meet with them, the directors will be happy to do so.

Disclosure of information to auditors

The syndicate's auditors are Ernst & Young LLP. The directors who held office at the date of approval of this directors' report confirm that, so far as they are individually aware, there is no relevant audit information of which the syndicate's auditors are unaware; and each director has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information, and to establish that the syndicate's auditors are aware of that information.

Auditors

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

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

D J Harris
Director

16 March 2017

Statement of Managing Agent's Responsibilities

The managing agent is responsible for preparing the annual report and the syndicate annual accounts in accordance with applicable law and regulations.

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

In preparing these syndicate annual accounts, the managing agent is required to:

- select suitable accounting policies, and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the syndicate annual accounts; and
- prepare the syndicate annual accounts on the basis that the syndicate will continue to write future business unless it is inappropriate to do so.

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

The managing agent is responsible for the maintenance and integrity of the corporate and financial information relating to the syndicate included on the managing agent's website. Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

Report of the Independent Auditors

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 1200

We have audited the syndicate annual accounts of syndicate 1200 ('the syndicate') for the year ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Member's Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

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

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 9, the managing agent is responsible for the preparation of syndicate annual accounts which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate annual accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate annual accounts. In addition, we read all the financial and non-financial information in the Report and Syndicate Annual Accounts to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate annual accounts

In our opinion the syndicate annual accounts:

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

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

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

Matters on which we are required to report by exception

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

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

Ernst & Young LLP

Stuart Wilson *(Senior statutory auditor)*
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

16 March 2017

Income Statement
Year ended 31 December 2016

	Note	2016 £m	2015 £m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross premiums written	2, 4	**514.3**	421.5
Outward reinsurance premiums	4	**(144.0)**	(114.0)
Net premiums written		**370.3**	307.5
Change in the provision for unearned premiums			
– Gross amount	2, 4	**(24.6)**	(15.5)
– Reinsurers' share	4	**7.4**	0.5
Change in the net provision for unearned premiums		**(17.2)**	(15.0)
Earned premiums, net of reinsurance		**353.1**	292.5
Allocated investment return transferred from the non-technical account		**(0.1)**	12.4
Claims incurred, net of reinsurance			
Claims paid			
– Gross amount	2, 3	**(232.4)**	(176.8)
– Reinsurers' share	3	**66.3**	67.0
Net claims paid		**(166.1)**	(109.8)
Change in the provision for claims			
– Gross amount	2, 3	**(63.0)**	(26.7)
– Reinsurers' share		**11.6**	(14.5)
Change in the net provision for claims		**(51.4)**	(41.2)
Claims incurred, net of reinsurance		**(217.5)**	(151.0)
Net operating expenses	6	**(143.8)**	(117.5)
Balance on the technical account for general business		**(8.3)**	36.4
Non-technical account			
Balance on the technical account for general business		**(8.3)**	36.4
Profit/(loss) on exchange		**11.6**	(10.0)
Investment income		**1.9**	14.1
Investment expenses and charges		**(0.3)**	(0.2)
Unrealised losses on investments		**(1.7)**	(1.5)
Allocated investment return transferred to the technical account for general business	9	**0.1**	(12.4)
Profit for the financial year	17	**3.3**	26.4

There are no gains or losses in the accounting period other than those dealt with in the profit and loss account and so no seperate statement of comprehensive income has been prepared.

All items relate only to continuing operations.

Statement of Financial Position
at 31 December 2016

	Note	**2016 £m**	2015 £m
Investments			
Financial investments at fair value through the profit and loss	10	**383.5**	313.0
		383.5	313.0
Reinsurers' share of technical provisions			
Provision for unearned premiums	4	**59.3**	43.5
Claims outstanding	3	**171.4**	139.0
		230.7	182.5
Debtors			
Debtors arising out of direct insurance operations	11	**195.6**	130.5
Debtors arising out of reinsurance operations	12	**83.4**	43.1
Other debtors	13	**11.1**	8.5
		290.1	182.1
Cash and other assets			
Cash at bank and in hand	16	**15.9**	17.2
Other assets	10, 14	**85.9**	67.9
		101.8	85.1
Prepayments and accrued income			
Deferred acquisition costs	5	**70.5**	53.2
Other prepayments and accrued income	15	**0.5**	0.5
		71.0	53.7
Total assets		**1,077.1**	816.4
Members' balances and liabilities			
Members' balances	17	**(6.4)**	17.6
Technical provisions			
Provision for unearned premiums	4	**244.6**	185.2
Claims outstanding	3	**586.6**	450.6
Creditors			
Creditors arising out of direct insurance operations	18	**6.8**	5.0
Creditors arising out of reinsurance operations	19	**217.7**	132.3
Other creditors including taxation and social security	20	**9.6**	12.3
		234.1	149.6
Accruals and deferred income		**18.2**	13.4
Total liabilities		**1,077.1**	816.4

Approved by the Board of Argo Managing Agency Limited on 16 March 2017 and signed on its behalf by:

D Argyle
Director

D J Harris
Director

Statement of Changes in Members' Balances

Year ended 31 December 2016

	2016 £m	2015 £m
Members' balances brought forward at 1 January	**17.6**	16.0
Profit for the financial year	**3.3**	26.4
Members' agents' fees	**(0.3)**	(0.2)
Transfers to members' personal reserve funds	**(27.0)**	(24.6)
Members' balances carried forward at 31 December	**(6.4)**	17.6

Members participate on syndicates by years of account and their ultimate results, assets and liabilities are assessed on policies incepting in that year of account for their membership of a particular year.

Statement of Cash Flows

Year ended 31 December 2016

	Note	2016 £m	2015 £m
Profit on ordinary activities		**3.3**	26.4
Movement in general insurance unearned premiums and outstanding claims		**195.5**	36.6
Movement in reinsurers' share of unearned premiums and outstanding claims		**(48.2)**	18.5
Investment return		**0.1**	(12.4)
Movements in other assets/liabilities		**(36.2)**	(22.2)
Net cash inflow from operating activities		**114.5**	46.9
Investing activities			
Investment income received		**(0.2)**	2.9
Purchases of debt and equity instruments		**(213.9)**	(148.7)
Sales of debt and equity instruments		**163.8**	142.9
Foreign exchange		**(79.0)**	10.5
Net cash (outflow) from investing activities		**(129.3)**	7.6
Financing activities			
Payments of profit to members' personal reserve funds	17	**(27.0)**	(24.6)
Members' agents' fee advances	17	**(0.3)**	(0.2)
Net cash flow from financing activities		**(27.3)**	(24.8)
Decrease/(increase) in cash and cash equivalents		**(42.1)**	29.7
Cash and cash equivalents at 1 January		**63.6**	35.1
Exchange differences on opening cash		**12.5**	(1.2)
Cash and cash equivalents at 31 December	16	**34.0**	63.6

Notes to the Financial Statements

Year ended 31 December 2016

1. Accounting Policies

Statement of compliance

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

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

Basis of preparation

The financial statements for the year ended 31 December 2016 were approved for issue by the Board of Directors on 16 March 2017.

The financial statements are prepared in sterling which is the functional and presentational currency of the Syndicate and rounded to the nearest £0.1m.

As permitted by FRS 103 the Syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

The Syndicate has elected to early-apply the March 2016 amendments to FRS102, fair value hierarchy disclosures. As a result, the fair value hierarchy disclosures, including comparatives, shown in Note 10 are now prepared on a basis consistent with the measurement of the financial instruments.

Judgement and key sources of estimation and uncertainty

Premiums written

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

Claims incurred and reinsurers' share

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

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

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

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

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

1. Accounting Policies (continued)

Fair value of financial assets

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

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

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

c. Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.
   See Note 10 for details of financial instruments classified by fair value hierarchy.

Basis of accounting

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

Product classification

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

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period.

Premiums written

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

Unearned premiums

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

Reinsurance premium ceded

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

Claims incurred and reinsurers' share

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

Unexpired risks provision

A liability adequacy provision (the unexpired risks provision) is made where the cost of claims and expenses arising after the end of the financial year from contracts concluded before that date, is expected to exceed the provision for unearned premiums, net of deferred acquisition costs.

The assessment of whether a provision is necessary is made by considering separately each category of business on the basis of information available at the reporting date, after offsetting surpluses and deficits arising on products which are managed together. Investment income is taken into account in calculating the provision.

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

Reinsurance assets

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

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

Notes to the Financial Statements
Year ended 31 December 2016

1. Accounting Policies (continued)

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

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

Net operating expenses (including acquisition costs)

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

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

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

Profit commission

Profit commission within these financial statements is charged at a rate of 15% on the first 15% of the return of the stamp and 20% thereafter. Profit commission is payable on distributed results and is subject to the operation of a three year deficit clause.

Distribution of profits and collection of losses

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

Foreign currencies

The Syndicate's functional currency and presentational currency is Sterling.

Transactions denominated in currencies other than the functional currency are initially recorded in the functional currency at the exchange rate ruling at the date of the transactions. Monetary assets and liabilities (which include all assets and liabilities arising from insurance contracts including unearned premiums and deferred acquisition costs) denominated in foreign currencies are retranslated into the functional currency at the exchange rate ruling on the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Non-monetary items denominated in a foreign currency, measured at fair value are translated into the functional currency using the exchange rate ruling at the date when the fair value was determined.

Exchange differences are recorded in the non-technical account.

Exchange rates

The rates of exchange used in preparing the financial statements were:

	2016		2015	
	Average	**Closing**	Average	Closing
Euro	**1.24**	**1.17**	1.37	1.42
US dollar	**1.38**	**1.25**	1.53	1.50
Canadian dollar	**1.83**	**1.67**	1.93	2.01
Japanese yen	**150.7**	**141.1**	185.39	184.79
Australian dollar	**1.86**	**1.67**	2.02	2.09

1. Accounting Policies (continued)

Financial investments

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

The Syndicate classifies its financial investments as financial assets at fair value through profit or loss.

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

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

Derivative financial instruments

The Syndicate uses derivatives in the form of forward foreign currency contracts. Such derivative financial instruments are initially recognised at fair value on the date that the derivative contract is entered into and are subsequently re-measured at fair value through the profit or loss at each balance sheet date. The Syndicate has not used hedge accounting for any of its derivatives.

Financial assets at fair value through profit or loss has two sub categories namely financial assets held for trading and those designated at fair value through profit or loss at inception. Investments typically bought with the intention to sell in the near future are classified as held for trading as are all derivatives, including embedded derivatives, that are not designated as hedging instruments. For investments designated as at fair value through profit or loss, the following criteria must be met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on a different basis; or

- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

These investments are initially recorded at fair value. Subsequent to initial recognition, these investments are re-measured at fair value at each reporting date. Fair value adjustments and realised gains and losses are recognised in the income statement.

Overseas deposits

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

Cash and cash equivalents

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

Investment return

Dividends are recognised when the investments to which they relate are declared 'ex-dividend'. Interest income is recognised on a time proportionate basis taking into account effective interest yield.

Unrealised and realised gains and losses on financial investments are recognised based on the appropriate classification of financial investments and are covered in detail under the accounting policy for financial investments.

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

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. Managing agents can recover UK basic rate income tax deducted from syndicate investment income, and consequently any distribution to members or members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for United States federal income tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year have been included in the balance sheet under the heading 'other debtors'.

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

Pension costs

Argo Management Services Limited is a service company which operates a defined contribution pension scheme. Pension contributions are recharged to group companies and the syndicate based on employees' time and are included within net operating expenses.

2. Segmental analysis

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

2016	**Gross premiums written £m**	**Gross premiums earned £m**	**Gross claims incurred £m**	**Gross operating expenses £m**	**Reinsurance balance £m**	**Total £m**
Direct insurance:						
Accident and health	**33.8**	**31.0**	**(20.8)**	**(12.3)**	**(1.2)**	**(3.3)**
Marine	**37.4**	**29.1**	**(18.0)**	**(9.9)**	**(2.7)**	**(1.5)**
Aviation	**5.5**	**7.4**	**(5.4)**	**(1.4)**	**(1.4)**	**(0.8)**
Transport	**(0.5)**	**(0.5)**	**0.1**	**0.1**	**0.4**	**0.1**
Energy – Marine	**11.7**	**11.6**	**(2.7)**	**(2.5)**	**(6.6)**	**(0.2)**
Energy – Non Marine	**8.4**	**8.7**	**(5.5)**	**(1.3)**	**(0.9)**	**1.0**
Fire and other damage to property	**137.9**	**134.4**	**(87.5)**	**(39.9)**	**(20.6)**	**(13.6)**
Third party liability	**118.7**	**119.4**	**(74.7)**	**(41.2)**	**2.4**	**5.9**
Pecuniary loss	**15.7**	**9.7**	**(9.3)**	**(2.8)**	**0.5**	**(1.9)**
	368.6	**350.8**	**(223.8)**	**(111.2)**	**(30.1)**	**(14.3)**
Reinsurance acceptances	**145.7**	**138.9**	**(71.6)**	**(32.6)**	**(28.6)**	**6.1**
Total	**514.3**	**489.7**	**(295.4)**	**(143.8)**	**(58.7)**	**(8.2)**

2015	Gross premiums written £m	Gross premiums earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m
Direct insurance:						
Accident and health	18.1	16.2	(11.9)	(5.1)	(2.4)	(3.2)
Motor (other classes)	1.3	1.3	–	0.3	–	1.6
Marine	9.6	8.0	(9.8)	(2.5)	(0.2)	(4.5)
Aviation	12.6	11.5	(7.3)	(2.8)	(2.5)	(1.1)
Transport	8.2	7.2	0.3	(2.4)	(1.8)	3.3
Energy – Marine	11.8	12.6	(4.5)	(4.2)	(1.3)	2.6
Energy – Non Marine	7.2	7.7	(2.7)	(1.7)	0.1	3.4
Fire and other damage to property	109.7	109.0	(34.2)	(29.2)	(27.9)	17.7
Third party liability	111.7	108.4	(54.4)	(33.6)	(19.5)	0.9
Pecuniary loss	7.9	7.9	(5.1)	(2.3)	(1.4)	(0.9)
	298.1	289.8	(129.6)	(83.5)	(56.9)	19.8
Reinsurance acceptances	123.4	116.2	(73.9)	(34.0)	(4.1)	4.2
Total	421.5	406.0	(203.5)	(117.5)	(61.0)	24.0

Total commissions for direct insurance accounted for in the year amounted to £107.6m (2015: £80.2m).

All premiums written are for contracts with external customers and are concluded in the UK.

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

2. Segmental analysis (continued)

Analysis of gross premium written by geographical area is shown below:

	Gross premiums written 2016 £m	**2016 %**	Gross premiums written 2015 £m	2015 %
North America	**235.3**	**45.7**	191.2	45.4
Caribbean and Latin America	**22.2**	**4.3**	16.8	4.0
UK	**60.6**	**11.8**	71.4	16.9
Rest of Europe	**34.2**	**26.6**	19.5	19.2
Oceania	**11.7**	**2.3**	25.0	5.9
Rest of the world	**150.3**	**9.3**	97.6	8.6
Total	**514.3**	**100.0**	421.5	100.0

3. Claims outstanding

	Gross £m	**2016 Reinsurers' share £m**	**Net £m**
At 1 January 2016	**450.6**	**(139.0)**	**311.6**
Claims incurred in current underwriting year	**147.0**	**(34.4)**	**112.6**
Claims incurred in prior underwriting years	**148.5**	**(43.4)**	**105.1**
Claims paid during the year	**(232.4)**	**66.3**	**(166.1)**
Foreign exchange	**72.9**	**(20.9)**	**52.0**
At 31 December 2016	**586.6**	**(171.4)**	**415.2**

	Gross £m	2015 Reinsurers' share £m	Net £m
At 1 January 2015	430.0	(156.4)	273.6
Claims incurred in current underwriting year	91.5	(19.7)	71.8
Claims incurred in prior underwriting years	112.0	(32.8)	79.2
Claims paid during the year	(176.8)	67.0	(109.8)
Foreign exchange	(6.1)	2.9	(3.2)
At 31 December 2015	450.6	(139.0)	311.6

Notes to the Financial Statements
Year ended 31 December 2016

4. Provision for unearned premiums

	Gross £m	2016 Reinsurers' share £m	Net £m
At 1 January 2016	**185.2**	**(43.5)**	**141.7**
Premiums written in the year	**514.3**	**(144.0)**	**370.3**
Premiums earned in the year	**(489.7)**	**136.6**	**(353.1)**
Foreign exchange	**34.8**	**(8.4)**	**26.4**
At 31 December 2016	**244.6**	**(59.3)**	**185.3**

	Gross £m	2015 Reinsurers' share £m	Net £m
At 1 January 2015	169.1	(43.0)	126.1
Premiums written in the year	421.5	(114.0)	307.5
Premiums earned in the year	(406.0)	113.5	(292.5)
Foreign exchange	0.6	–	0.6
At 31 December 2015	185.2	(43.5)	141.7

5 Deferred acquisition costs

	2016 £m	2015 £m
At 1 January	**53.2**	44.7
Change in deferred acquisition costs	**7.9**	5.2
Foreign exchange	**9.4**	3.3
At 31 December	**70.5**	53.2

6. Net operating expenses

	2016 £m	2015 £m
Brokerage and commission	**110.4**	90.0
Other acquisition costs	**19.1**	15.0
Acquisition costs	**129.5**	105.0
Change in deferred acquisition costs	**(6.5)**	(5.0)
Administrative expenses	**20.8**	17.5
	143.8	117.5

Administrative expenses include:		
Auditors' remuneration consisting of audit of the syndicate annual accounts	**0.2**	0.2
Other services persuant to Regulations and Lloyd's Byelaws	**0.1**	0.1

Members' standard personal expenses:		
Lloyd's central fund contributions	**2.0**	1.6
Lloyd's subscriptions	**2.5**	1.6
Managing agent's fees	**2.5**	2.1
Managing agent's profit commission	**0.5**	0.9
	7.5	6.2

Notes to the Financial Statements

Year ended 31 December 2016

7. Employees

All staff are employed by Argo Management Services Limited (AMS). The following amounts were recharged to the syndicate as salary costs (this excludes any benefits where the costs are retained elsewhere in the managing agency or other companies in the group):

	2016 £m	2015 £m
Wages and salaries	**16.8**	18.1
Social security costs	**2.6**	2.8
Pension costs	**1.8**	1.7
Other	**0.7**	0.5
	21.9	23.1

Other costs include: severance and redundancy payments and holiday pay.

The average number of full-time equivalent employees employed by AMS but working for the syndicate during the year was as follows:

	2016	2015
Underwriting	**91**	80
Administration and finance	**75**	75
Claims	**13**	12
Investments	**1**	1
	180	168

8. Directors' and active underwriters' emoluments

The directors of Argo Managing Agency Limited received the following aggregate remuneration, charged to the syndicate and included within net operating expenses:

	2016 £m	2015 £m
Emoluments	**1.3**	1.0
Payments to defined contribution pension schemes	**0.1**	0.1
	1.4	1.1

The active underwriter received the following aggregate remuneration, charged as a syndicate expense:

	2016 £m	2015 £m
Emoluments	**0.3**	0.3
Payments to defined contribution pension schemes	**–**	–
	0.3	0.3

The above amounts exclude any benefits not recharged to the syndicate. Amounts not recharged in calendar years 2015 and 2016 included the active underwriter charges in relation to options granted in the group holding company, Argo Group International Holdings, Ltd (see note 23).

The active underwriter's profit share remuneration is charged to Argo Managing Agency Limited.

9. Investment return

	2016 £m	2015 £m
Income from other financial investments	**7.4**	6.4
Net gains on realisation of investments		
Fair value through profit or loss designated upon initial recognition	**(5.5)**	7.7
Total investment income	**1.9**	14.1
Net unrealised gains on investments		
Financial instruments at fair value through profit and loss	**(1.7)**	(1.5)
Investment expenses and charges	**(0.3)**	(0.2)
Total investment return	**(0.1)**	12.4

Average funds available for investment by currency

	2016 £m	2015 £m
Sterling	**30.4**	32.5
Euro	**14.0**	10.6
United States dollars	**206.0**	160.5
Canadian dollars	**171.6**	128.3
Australian dollars	**48.7**	29.9
Japanese yen	**3.7**	3.0

Analysis of calendar year investment yield by currency

	2016 %	2015 %
Sterling	**1.3**	1.0
Euro	**(0.4)**	0.9
United States dollars	**1.2**	0.7
Canadian dollars	**1.1**	1.5
Australian dollars	**3.1**	3.1
Japanese yen	**–**	–

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

10. Financial investments at fair value

	Carrying value £m	Purchase price £m	Listed £m
2016			
Designated at fair value through profit or loss			
– Shares and other variable yield securities and units in unit trusts Designated at fair value through profit or loss	**24.3**	**23.6**	**–**
– Debt securities and other fixed income securities	**359.2**	**358.7**	**–**
– Participation in Investment Pools	**–**	**–**	**–**
Deposits with credit institutions held	**85.9**	**85.9**	**–**
Other loans at amortised cost	**–**	**–**	**–**
	469.4	**468.2**	**–**
2015			
Designated at fair value through profit or loss			
– Shares and other variable yield securities and units in unit trusts Designated at fair value through profit or loss	50.3	50.3	–
– Debt securities and other fixed income securities	262.4	262.0	–
– Participation in Investment Pools	0.3	0.1	–
Deposits with credit institutions held	67.9	67.9	–
Other loans at amortised cost	–	–	–
	380.9	380.3	–

Debt securities and other fixed income securities are all listed on recognised stock exchanges. Participation in investment pools comprises a residual non material portfolio of UBP hedge funds, the balance of which is expected to be liquidated in the next few years.

There was no change during the period and cumulatively in the fair value of financial instruments held at fair value through profit and loss (other than derivatives) attributable to changes in credit risk.

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

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

10. Financial investments at fair value (continued)

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
31 December 2016				
Shares and other variable yield securities and units in unit trusts	**24.3**	**–**	**–**	**24.3**
Debt securities and other fixed income securities	**13.7**	**345.5**	**–**	**359.2**
Participation in investment pools	**–**	**–**	**–**	**–**
Loans and deposits with credit institutions	**8.7**	**77.2**	**–**	**85.9**
	46.7	**428.8**	**–**	**469.4**
31 December 2015				
Shares and other variable yield securities and units in unit trusts	46.4	3.9	–	50.3
Debt securities and other fixed income securities	1.1	261.3	–	262.4
Participation in investment pools	–	0.3	–	0.3
Loans and deposits with credit institutions	6.3	61.6	–	67.9
	53.8	327.1	–	380.9

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

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

Included in the level 3 category, are financial assets measured using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Therefore, unobservable inputs reflect the Syndicate's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available, which might include the Syndicate's own data.

Using Standard & Poor's and Moody's as rating sources, the credit ratings of the debt and other fixed income securities were:

	2016 £m	2015 £m
AAA/Aaa	**148.7**	114.3
AA/Aa	**83.4**	50.5
A	**106.4**	84.8
BBB/Baa or lower	**20.8**	12.8
	359.3	262.4

10. Financial investments at fair value (continued)

The maturity bands of the bond holdings with Conning were:

	2016 £m	2016 %	2015 £m	2015 %
Less than 1 year	**53.5**	**14.9**	31.5	12.0
1 – 2 years	**138.0**	**38.4**	98.4	37.5
2 – 3 years	**145.1**	**40.4**	87.0	33.2
3 – 4 years	**13.6**	**3.8**	24.8	9.4
4 – 5 years	**4.5**	**1.2**	3.4	1.3
Over 5 years	**4.6**	**1.3**	17.3	6.6
	359.3	**100.0**	262.4	100.0

The syndicate's fund managers at 31 December 2016 were:

Manager	Funds managed
Conning Asset Management Ltd	Sterling, Euro, US and Canadian dollar bonds
Western Asset Management Co. Ltd	US dollar liquid funds
UBP	US dollar
Fiera Capital Corporation	US and Canadian liquid funds

11. Debtors arising out of direct insurance operations

	2016 £m	2015 £m
Due within one year: intermediaries	**195.6**	130.5

12. Debtors arising out of reinsurance operations

	2016 £m	2015 £m
Due within one year	**83.4**	43.1

13. Other debtors

Due within one year:	2016 £m	2015 £m
Due from Argo Underwriting Agency Limited	**3.1**	2.0
Due from Argo Management Services Limited	**2.0**	–
Service company commission receivable	**0.5**	–
Federal Income tax	**1.9**	2.7
Recoverable taxes	**0.3**	3.8
	7.8	8.5
Due after one year:		
Recoverable taxes	**3.3**	–
	3.3	–

Amounts due from members for fee advances made to members' agents are included in members' balances (see note 17).

14. Other assets

	2016 £m	2015 £m
Overseas deposits in Australia	**47.3**	37.7
Overseas deposits in Illinois and Kentucky, USA	**2.7**	2.0
Overseas deposits in South Africa and other countries	**35.9**	28.2
	85.9	67.9

Overseas deposits were placed as a condition of carrying on business in these territories.

15. Other prepayments and accrued income

	2016 £m	2015 £m
Accrued income	**0.5**	0.5

16. Cash and cash equivalents

	2016 £m	2015 £m
Cash at bank and in hand	**15.9**	17.2
Short term deposits with financial institutions	**18.1**	46.4
	34.0	63.6

17. Members' balances

	2016 £m	2015 £m
Members' balances brought forward at 1 January	**17.6**	16.0
Profit for the financial year	**3.3**	26.4
Members' agents' fees	**(0.3)**	(0.2)
Transfers to members' personal reserve funds	**(27.0)**	(24.6)
Members' balances carried forward at 31 December	**(6.4)**	17.6

Members participate on syndicates by years of account and their ultimate results, assets and liabilities are assessed on policies incepting in that year of account for their membership of a particular year.

18. Creditors arising out of direct insurance operations

	2016 £m	2015 £m
Due within one year: intermediaries	**6.8**	5.0

19. Creditors arising out of reinsurance operations

	2016 £m	2015 £m
Due within one year	**217.7**	132.3

20. Other creditors including taxation and social security

Due within one year:	2016 £m	2015 £m
Taxes payable	0.2	–
Due to Argo Management Services Limited	–	3.6
Due to Argo Direct Limited	1.1	0.4
Investment trade creditor	–	5.2
Service company commission payable	3.8	–
Profit commission payable	0.6	0.5
Creditors due within one year	5.7	9.7

Due after one year:	2016 £m	2015 £m
Profit commission payable	0.6	0.6
Investment income due on funds withheld whole account Quota Share	3.3	2.0
Creditors due after one year	3.9	2.6

21. Post balance sheet events

The reinsurance premium to close the 2014 year of account at 31 December 2016 was agreed by the managing agent on 16 February 2017. The technical provisions at 31 December 2016 include, in relation to the 2014 and prior accounts, a net amount equal to the net reinsurance to close premium.

The following amount will be transferred in sterling to/(from) members' personal reserve funds during the second quarter of 2017:

	2016 £m	2015 £m
2013 year of account	–	27.1
2014 year of account	28.2	–
	28.2	27.1

22. Off-balance sheet items

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

23. Related parties

Lloyd's market regulations require that a managing agent is responsible for employing the underwriting staff and managing the affairs of each syndicate at Lloyd's on behalf of the syndicate members. The managing agent of Syndicate 1200 is Argo Managing Agency Limited (AMA). The immediate parent company of AMA is Argo Underwriting Agency Limited (AUA) which was acquired by Argo International Holdings Limited (formerly Argo Acquisition, Limited) on 14 May 2008.

Argo International Holdings Limited is a wholly owned subsidiary of Argo Group headquartered in Hamilton, Bermuda. Information on the Argo Group and its subsidiaries is available at www.argolimited.com, or from 110 Pitts Bay Road, Pembroke, HM08, Bermuda.

23. Related parties (continued)

Stock options granted to the directors of the managing agent and the active underwriters of the syndicate by Argo Group International Holdings, Ltd comprise:

	1 January 2016	Movement	31 December 2016
Restricted stock awards			
D Argyle	–	3,245	3,245
J S Bullock	25,915	595	26,510
D J Harris	44,067	705	44,772
D M Lang	–	14,117	14,117
B C Ritchie	2,476	9,628	12,104
M E Watson III	156,722	12,088	168,810
	229,180	40,378	269,558
SAR stock appreciation right grant/cash settlements			
D Argyle	53,193	(11,321)	41,872
J S Bullock	218,136	(40,427)	177,709
B C Ritchie	145,370	(64,695)	80,675
M E Watson III	621,527	6,522	628,049
	1,038,226	(109,921)	928,305
Save as you earn scheme			
D M Lang	–	485	485
D J Harris	797	(394)	403
	797	91	888

The cost of these stock options is charged to Argo Underwriting Agency Limited and not recharged to the syndicate.

A number of 100% owned corporate member subsidiaries of AUA and Nomina No 550 LLP, beneficially owned by AUA, provide capacity to Syndicate 1200.

FAL for the following members, whose capacity is shown below, is provided by the Argo group, either directly by AUA or through a funded limited liability 50% quota share reinsurance contract with Argo Re on arm's length terms.

Year of account	2014 £m	2014 %	2015 £m	2015 %	2016 £m	2016 %	2017 £m	2017 %
Argo (No. 604) Limited	237.9	68.0	206.2	58.9	226.4	53.2	206.0	45.8
Argo (No. 616) Limited	2.5	0.7	0.5	0.1	0.3	0.1	–	–
Nomina No 550 LLP	0.7	0.2	0.7	0.2	0.8	0.2	0.9	0.2
	241.1	68.9	207.4	59.2	227.5	53.5	206.9	46.0

FAL for the following members, whose capacity is shown below, is provided by trade insurers through funded limited liability 100% quota share reinsurance contracts. The corporate members concerned received commission of £622,497 (2015: £406,361) from the providers of these funded limited liability quota share contracts to cover administrative costs.

Notes to the Financial Statements
Year ended 31 December 2016

23. Related parties (continued)

Year of account	2014 £m	2014 %	2015 £m	2015 %	2016 £m	2016 %	2017 £m	2017 %
Argo (No. 703) Limited	23.0	6.6	26.5	7.6	26.5	6.2	26.5	5.9
Argo (Alpha) Limited	25.6	7.3	25.6	7.3	31.1	7.3	33.0	7.3
Argo (Beta) Limited	11.8	3.4	12.0	3.4	14.6	3.4	15.4	3.4
Argo (Chi) Limited	–	–	10.0	2.9	12.1	2.8	12.9	2.9
Argo (Delta) Limited	–	–	15.0	4.3	23.2	5.6	29.0	6.5
	60.4	17.3	89.1	25.5	107.5	25.3	116.8	26.0

AMA entered into transactions with the syndicate as follows:

Members' expenses include agent's fees and profit commission payable to the managing agent, and subscriptions and central guarantee fund contributions paid to Lloyd's. These are charged on an underwriting year of account, rather than calendar year, basis. For the 2014 underwriting year of account, AMA has charged an agent's fee of 0.6% of capacity. When the year of account result is finalised, usually after 36 months, AMA will charge a profit commission of 15% on the return on stamp up to 15%, and 20% above 15% return on stamp (2015: as 2016). Within the financial statements for the 2016 calendar year, fees of £2.3m have been included in net operating expenses with £0.5m for profit commission. (2015: fees £2.1m and profit commission £0.9m). At December 2016 there were no unpaid fees (2015: £nil) or profit commission (2015: £nil) due to be paid in future periods.

The managing agent incurs a large proportion of the expenses incurred in operating the syndicate and recharges them to the syndicate on a basis that reflects the syndicate's use of resources. The recharges are included in net operating expenses, acquisition costs, claims incurred and investment expenses and charges. Included within the recharges are amounts relating to the remuneration of directors of AMA. The total amount recharged by the managing agent to the syndicate during 2015 was £36.6m (2015: £36.1m) excluding agent's fees and profit commission. At December 2016 an amount of £2.1m (2015: £3.6m) was due from the managing agent to the syndicate for expenses. No interest is payable on this amount.

At December 2016 an amount of £2.1m was due from the managing agent to the syndicate. At December 2015 an amount of £3.6m was due to the managing agent from the syndicate.

The Syndicate holds forward currency contracts with Argo Group. The value of these contracts at 31 December 2016 was £nil (2015: £nil).

24. Pension obligations

AMS operates a defined contribution pension scheme for its employees including syndicate staff. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses. The cost of the contributions made for the year was £1.8m (2015: £1.7m) and there were no outstanding or prepaid contributions at the end of this year or the previous year.

25. Argo Direct Limited

Argo Direct Limited (ADL) is a 100 percent subsidiary of AMA, set up to write small to medium size commercial liability risks. Any profits or losses are paid to or reimbursed by the syndicate. No directors or officers of the managing agency receive any remuneration or benefits from ADL.

	2016 £m	2015 £m
Gross premium booked through ADL in calendar year	**4.5**	2.6
Commission received by ADL in calendar year	**0.6**	0.4

26. Risk management

Governance framework

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

The Managing Agent has established a risk management function for the Syndicate with clear terms of reference from the board of directors, its committees and the associated executive management committees. This is supplemented with a clear organisational structure with documented delegated authorities and responsibilities from the board of directors to executive management committees and senior managers. Lastly, a Syndicate policy framework which sets out the risk profiles for the Syndicate, risk management, control and business conduct standards for the Syndicate's operations has been put in place. Each policy has a member of senior management charged with overseeing compliance with the policy throughout the Syndicate.

The board of directors approves the risk management policies and meets regularly to approve any commercial, regulatory and organisational requirements of such policies. These policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align underwriting and reinsurance strategy to the Syndicate goals, and specify reporting requirements. Significant emphasis is placed on assessment and documentation of risks and controls, including the articulation of 'risk appetite'. The Board sets risk appetite annually as part of the syndicate's business planning and capital setling process. The risk management function is also reasonable for reviewing the syndicate's Own Risk and Solvency Assessment ('ORSA'), recommening the assessment to the Board for approval.

Capital management objectives, policies and approach

Capital framework at Lloyd's

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

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

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

Although Lloyd's capital setting processes use a capital requirement set at Syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 1200 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to

26. Risk management (continued)

ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

Accordingly all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the Balance Sheet on page 12, represent resources available to meet members' and Lloyd's capital requirements.

Insurance risk

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

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

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

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

The Syndicate principally issues the following types of general insurance contracts: accident and health, motor, third-party liability, marine, fire and peril. Risks usually cover twelve months duration.

The most significant risks arise from climate changes, natural disasters and terrorist activities. For longer tail claims that take some years to settle, there is also inflation risk.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts and geographical areas. The variability of risks is improved by careful selection and implementation of underwriting strategies, which are designed to ensure that risks are diversified in terms of type of risk and level of insured benefits. This is largely achieved through diversification across industry sectors and geography. Furthermore, strict claim review policies to assess all new and ongoing claims, regular detailed review of claims handling procedures and frequent investigation of possible fraudulent claims are all policies and procedures put in place to reduce the risk exposure of the Syndicate. The Syndicate further enforces a policy of actively managing and promptly pursuing claims, in order to reduce its exposure to unpredictable future developments that can negatively impact the business. Inflation risk is mitigated by taking expected inflation into account when estimating insurance contract liabilities.

26. Risk management (continued)

Catastrophic events

The syndicate has developed underwriting guidelines which limit the authority of the underwriting teams and limit exposure geographically and by assured entities. The syndicate models Realistic Disaster Scenarios (RDS) which provide an estimate of the effect on the syndicate results of an aggregation of the claims arising from a large range of disasters including those specified by Lloyd's. The syndicate uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses, which are used to measure the effectiveness of both the underwriting guidelines to limit exposure to these scenarios and its reinsurance programmes.

The following, taken from recent submissions to Lloyd's, illustrate the effect of RDS on the underwriting results:

Description of RDS as at 1 July 2016	Industry loss/ Event size £bn	Gross loss to syndicate £m	Net loss to syndicate £m
Worldwide Property			
1. Miami windstorm	93.3	189.0	57.8
2. North East US windstorm	58.2	98.1	40.8
3. Gulf of Mexico windstorm	83.2	209.7	90.4
4. Los Angeles earthquake	58.2	148.8	50.0
5. San Francisco earthquake	58.2	166.9	54.7
6. Japanese earthquake	35.8	19.1	13.1

Description of RDS as at 1 January 2016	Industry loss/ Event size £bn	Gross loss to syndicate £m	Net loss to syndicate £m
Worldwide Property			
1. Miami windstorm	85.0	150.4	42.6
2. North East US windstorm	53.1	90.0	32.7
3. Gulf of Mexico windstorm	75.9	173.3	68.0
4. Los Angeles earthquake	53.1	124.5	38.7
5. San Francisco earthquake	53.1	136.2	42.1
6. Japanese earthquake	32.7	17.9	11.7

Where exposures are not calculated in sterling they are converted to sterling using monthly exchange rates advised by Lloyd's.

26. Risk management (continued)

The table below sets out the concentration of outstanding claim liabilities by class of business:

	31 December 2016 Gross liabilities £m	Re-insurance of liabilities £m	Net liabilities £m	31 December 2015 Gross liabilities £m	Re-insurance of liabilities £m	Net liabilities £m
Accident and health	**19.1**	**(5.8)**	**13.3**	10.6	(1.5)	9.1
Motor (other classes)	**–**	**–**	**–**	0.8	–	0.8
Marine	**17.9**	**(4.9)**	**13.0**	4.5	(1.0)	3.5
Aviation	**9.6**	**(5.4)**	**4.2**	7.7	(1.8)	5.9
Transport	**0.4**	**(0.2)**	**0.2**	6.7	(1.6)	5.1
Energy – Marine	**7.9**	**(4.5)**	**3.4**	6.7	(2.5)	4.2
Energy – Non Marine	**8.9**	**(4.3)**	**4.6**	4.8	(3.3)	1.5
Fire and other damage to property	**84.8**	**(23.4)**	**61.4**	49.6	(8.6)	41.0
Third-party liability	**243.7**	**(80.9)**	**162.8**	201.7	(73.9)	127.8
Pecuniary loss	**6.7**	**(1.6)**	**5.1**	6.6	(1.4)	5.2
Reinsurance acceptance	**187.6**	**(40.4)**	**147.2**	150.9	(43.4)	107.5
Total	**586.6**	**(171.4)**	**415.2**	450.6	(139.0)	311.6

The geographical concentration of the outstanding claim liabilities is noted below. The disclosure is based on the countries where business is written. The analysis would not be materially different if based on the countries in which the counterparties are situated.

	31 December 2016 Gross liabilities £m	Re-insurance of liabilities £m	Net liabilities £m	31 December 2015 Gross liabilities £m	Re-insurance of liabilities £m	Net liabilities £m
North America	**254.1**	**(70.7)**	**183.4**	154.3	(47.6)	106.7
Caribbean and Latin America	**57.4**	**(16.2)**	**41.2**	41.9	(12.9)	29.0
UK	**94.6**	**(28.2)**	**66.4**	83.8	(25.8)	58.0
Rest of Europe	**53.1**	**(16.5)**	**36.6**	63.6	(19.6)	44.0
Oceania	**55.3**	**(18.6)**	**36.7**	50.4	(15.6)	34.8
Rest of World	**72.1**	**(21.2)**	**50.9**	56.6	(17.5)	39.1
Total	**586.6**	**(171.4)**	**415.2**	450.6	(139.0)	311.6

Claims development table

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. The cumulative claims estimates and cumulative payments are translated to sterling at the rate of exchange that applied at the end of the underwriting year. The impact of exchange differences is shown at the bottom of the table.

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

In setting claims provisions the Syndicate gives consideration to the probability and magnitude of future experience being more adverse than assumed and exercises a degree of caution in setting reserves where there is considerable uncertainty. In general, the uncertainty associated with the ultimate claims experience in an underwriting year is greatest when the underwriting year is at an early stage of development and the margin necessary to provide the necessary confidence in the provisions adequacy is relatively at its highest. As claims develop, and the ultimate cost of claims becomes more certain, the relative level of margin maintained should decrease. However, due to the uncertainty inherent in the estimation process, the actual overall claim provision may not always be in surplus. In 2016, there has been an overall improvement of £1.6m (2015: improvement of £16.4m).

26. Risk management (continued)

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

Underwriting year	Note	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
Estimate of cumulative claims incurred									
At end of underwriting year		95.5	121.2	122.0	108.4	101.8	105.0	156.6	810.5
One year later		262.6	218.0	228.9	223.7	231.8	245.5		1,410.5
Two years later		285.6	229.6	252.9	241.4	270.6			1,280.1
Three years later		282.3	219.3	251.2	232.5				985.3
Four years later		275.7	212.3	244.5					732.5
Five years later		266.9	209.1						476.0
Six years later		266.9							266.9
Current estimate of cumulative claims incurred		266.9	209.1	244.5	232.5	270.6	245.5	156.6	1,625.7
Cumulative claims paid		239.6	186.3	193.5	161.8	149.3	86.0	22.6	1,039.1

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

Underwriting year	Note	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	Total £m
Estimate of cumulative claims incurred									
At end of underwriting year		84.1	105.9	87.0	73.1	77.2	81.7	119.3	628.3
One year later		213.9	188.9	161.6	152.7	170.2	188.2		1,075.5
Two years later		235.6	194.5	174.6	163.8	196.5			965.0
Three years later		227.3	182.1	172.6	157.0				739.0
Four years later		219.6	176.6	167.2					563.4
Five years later		214.5	173.9						388.4
Six years later		209.9							209.9
Current estimate of cumulative claims incurred		209.9	173.9	167.2	157.0	196.5	188.2	119.3	1,212.0
Cumulative claims paid		190.6	160.7	141.7	110.3	109.2	66.5	17.8	796.8

26. Risk management (continued)

Rating levels

The managing agent produces an annual business plan for the syndicate under its management. The plan is produced by anticipating rating levels and terms and conditions attaching to risks expected to be underwritten by the syndicate. Performance against the plan is monitored on a regular basis through a system of underwriting committees, as well as regular review by the board of the managing agency. If market conditions materially change after the plan is produced, a revised plan is prepared and authorised by the managing agent's board. In this way, rating levels of both businesses written and reinsurance purchased are subject to constant review. Should risks be assessed as uneconomical, they will be declined.

Business volume

If the volume of business underwritten is less than that planned by the syndicate, the expenses ratio is likely to increase. Achieved business volumes may be linked to rating levels, for instance because of easier or tougher market conditions, in which case the effects of changes in both rating levels and business volumes will accumulate.

Reserving risk

In order to mitigate reserving risk, the syndicate uses a number of approaches, including accepted actuarial techniques, to project gross and net premiums written and insurance liabilities. The results of these analyses are agreed with the underwriting teams and with syndicate management and are subject to formal peer review. In addition the syndicate commissions an external independent actuary to perform his own assessment of the syndicate's gross and net premiums written and insurance liabilities. The managing agent ensures that the held reserves are at least as strong as the external actuary's reserves.

Assumptions

The reserves carried by the syndicate are calculated using a number of methods to project ultimate gross and net premiums written and insurance liabilities. The principal methods applied are:

- A case by case review of certain lines of business;
- The use of hurricane modelling techniques for major hurricane events during the year;
- Benchmarking certain lines of business based on previous underwriting experience, in particular the longer tail classes of business;
- Actuarial techniques such as the chain ladder method and the Bornhuetter-Ferguson method. These are mainly applied to the classes of business that have a relatively stable development pattern.

The major assumptions underlying the reserves established by the syndicate are:

- The syndicate's past claims development experience (with appropriate adjustment for known changes) can be used to project future claims development factors;
- The syndicate will experience normal incidence of bad debts against future recoveries.

The loss reserves established by the syndicate are sensitive to various factors:

- The ULR established to cover attritional losses of the syndicate. A 10% net adverse movement in the ULR, applied to the cumulative net earned premium for those years open during the calendar year, would reduce the profit of the syndicate by:

Calendar year	**2016** **£m**	2015 £m
Syndicate 1200	**45.2**	34.3

- The percentage of premiums earned during the calendar year. A 10% decrease in the net earned premium, for those years open during the calendar year, would reduce the profit of the syndicate by:

Calendar year	**2016** **£m**	2015 £m
Syndicate 1200	**21.5**	16.8

26. Risk management (continued)

Reinsurance risk

Reinsurance risk arises from two different sources:

- The first relates to concentration risk whereby recoveries from claims paid are due from a limited number of reinsurers. To mitigate this risk, the syndicate places its reinsurance in line with policy guidelines managed by reference to counterparty limits that are set each year and are subject to regular reviews.
- The second source of reinsurance risk relates to credit risk. Credit risk arises where reinsurers fail to meet their financial obligations in full as they fall due.

To understand the syndicate's exposure to credit risks both now and in the future, the table below shows the credit rating, categorised by the rating agencies and used by the syndicate in its reporting to Lloyd's.

	Moody's	Standard & Poor's
Tier 1	AA+ to A-	AAA to A-
Tier 2	B++ to B+	BBB+ to BB-
Tier 3	B to C-	B+ to CCC
Tier 4	D to NR	R to NR

	2016		2015	
	£m	**%**	£m	%
Tier 1	**171.4**	**100**	139.0	100.0
Tier 2	**–**	**–**	–	–
Tier 3	**–**	**–**	–	–
Tier 4	**–**	**–**	–	–
	171.4	**100.0**	139.0	100.0

Nil% (2015: Nil%) of Tier 1 is collateralised.

Financial risk

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation.

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

A credit risk policy setting out the assessment and determination of what constitutes credit risk for the Syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the Syndicate risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

Net exposure limits are set for each counterparty or asset class (i.e., limits are set for investments and cash deposits and minimum credit ratings for investments that may be held).

Guidelines determine when to obtain collateral and guarantees (i.e., certain derivative transactions are covered by collateral and derivatives are only taken out with counterparties that have a suitable credit rating). The Syndicate maintains strict control limits by amount and terms on net open derivative positions. The amounts subject to credit risk are limited to the fair value of 'in the money' financial assets against which the Syndicate either obtains collateral from counterparties or requires margin deposits. Collateral may be sold or repledged by the Syndicate and is repayable if the contract terminates or the contract's fair value falls.

26. Risk management (continued)

Reinsurance is placed with counterparties that have a good credit rating and concentration of risk is avoided by following policy guidelines in respect of counterparties' limits that are set each year by the board of directors and are subject to regular reviews. At each reporting date, management performs an assessment of creditworthiness of reinsurers and updates the reinsurance purchase strategy, ascertaining suitable allowance for impairment.

The Syndicate sets the maximum amounts and limits that may be advanced to corporate counterparties by reference to their long term credit ratings.

The credit risk in respect of customer balances, incurred on non-payment of premiums or contributions will only persist during the grace period specified in the policy document or trust deed until expiry, when the policy is either paid up or terminated. Commission paid to intermediaries is netted off against amounts receivable from them to reduce the risk of doubtful debts.

The tables below show the maximum exposure to credit risk (including an analysis of financial assets exposed to credit risk) for the components of the statement of financial position. The maximum exposure is shown gross, before the effect of mitigation through collateral agreements.

31 December 2016	Neither past due nor impaired £m	Past due £m	Impaired* £m	Total £m
Financial investments				
– Debt securities	359.3	–	–	359.3
– Shares and other variable yield securities and unit trusts	23.0	–	1.2	24.2
– Participation in investment pools	–	–	–	–
– Overseas deposits as assets	85.9	–	–	85.9
Deposits with credit institutions	–	–	–	–
Deposits with ceding undertakings	–	–	–	–
Reinsurers' share of claims outstanding	171.4	–	–	171.4
Debtors arising out of direct insurance operations	194.3	1.3	–	195.6
Debtors arising out of reinsurance operations	79.2	4.2	–	83.4
Other debtors	133.5	7.9	–	141.4
Cash at bank and in hand	15.9	–	–	15.9
	1,062.5	13.4	1.2	1,077.1

At 31 December 2016, there are impaired reinsurance assets of £nil (2015: £nil).

The £1.2m is the new market value of the security after the impact of a £0.2m impairment.

26. Risk management (continued)

31 December 2015	Neither past due nor impaired £m	Past due £m	Impaired £m	Total £m
Financial investments				
– Debt securities	262.4	–	–	262.4
– Shares and other variable yield securities and unit trusts	50.3	–	–	50.3
– Participation in investment pools	0.3	–	–	0.3
– Overseas deposits as assets	67.9	–	–	67.9
Reinsurers' share of claims outstanding	139.0	–	–	139.0
Debtors arising out of direct insurance operations	129.5	1.0	–	130.5
Debtors arising out of reinsurance operations	34.9	8.2	–	43.1
Other debtors	97.2	8.5	–	105.7
Cash at bank and in hand	17.2	–	–	17.2
	798.7	17.7	–	816.4

Assets which are past due but not impaired have been in arrears for less than 3 months from the reporting date.

The table below provides information regarding the credit risk exposure of the Syndicate at 31 December 2016 by classifying assets according to Standard & Poor's credit ratings of the counterparties. Debtors, other than amounts due from reinsurers, have been excluded from the table as these are not rated.

31 December 2016	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	Total £m
Shares and other variable yield securities and unit trusts	9.3	–	1.5	–	–	12.2	23.0
Debt securities	148.7	83.4	106.4	19.8	1.0	–	359.3
Deposits with credit institutions	–	–	–	–	–	–	–
Overseas deposits	52.0	16.1	8.6	3.6	–	5.6	85.9
Reinsurer' share of claims outstanding	8.0	34.4	129.0	–	–	–	171.4
Reinsurer debtors	0.2	1.1	77.9	–	–	–	79.2
Cash at bank and in hand	–	–	15.9	–	–	–	15.9
	218.2	135.0	339.3	23.4	1.0	17.8	734.7

26. Risk management (continued)

31 December 2015	AAA £m	AA £m	A £m	BBB £m	<BBB £m	Not rated £m	Total £m
Shares and other variable yield securities and unit trusts	38.0	–	2.7	–	–	9.6	50.3
Debt securities	114.2	50.5	84.8	12.7	0.2	–	262.4
Participation in investment pools	–	–	–	–	–	0.3	0.3
Overseas deposits	42.5	14.7	6.9	3.7	–	0.1	67.9
Reinsurer' share of claims outstanding	–	52.3	86.7	–	–	–	139.0
Reinsurer debtors	0.3	1.1	33.3	–	–	0.2	34.9
Cash at bank and in hand	–	–	17.2	–	–	–	17.2
	195.0	118.6	231.6	16.4	0.2	10.2	572.0

Maximum credit exposure

It is the Syndicate's policy to maintain accurate and consistent risk ratings across its credit portfolio. This enables management to focus on the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Syndicate's rating policy. The attributable risk ratings are assessed and updated regularly.

During the year, no credit exposure limits were exceeded.

The Syndicate actively manages its product mix to ensure that there is no significant concentration of credit risk.

Liquidity risk

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

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

a. A liquidity risk policy exists that sets out the assessment and determination of what constitutes liquidity risk. Compliance with the policy is monitored and exposures and breaches are reported to the risk committee. The policy is regularly reviewed for pertinence and for changes in the risk environment.

b. Guidelines on asset allocation, portfolio limit structures and maturity profiles of assets are set, in order to ensure that sufficient funding is available to meet insurance and investment contracts obligations.

c. Contingency funding plans are set up which specify minimum proportions of funds to meet emergency calls as well as specifying events that would trigger such plans.

d. The Syndicate's catastrophe excess-of-loss reinsurance contracts contain clauses permitting the immediate draw down of funds to meet claim payments should claim events exceed a certain size.

26. Risk management (continued)

Maturity profiles

The table below summarises the maturity profile of the Syndicate's financial liabilities based on remaining undiscounted contractual obligations, including interest payable, and outstanding claim liabilities based on the estimated timing of claim payments resulting from recognised insurance liabilities. Repayments which are subject to notice are treated as if notice were to be given immediately.

	Carrying amount £m	Up to a year £m	1-2 years £m	2-5 years £m	5-10 years £m	Over 10 years £m	Total £m
31 December 2016							
Outstanding claim liabilities	586.6	208.6	135.5	187.8	53.8	0.9	586.6
Other	234.0	29.2	99.0	105.8	–	–	234.0

	Carrying amount £m	Up to a year £m	1-2 years £m	2-5 years £m	5-10 years £m	Over 10 years £m	Total £m
31 December 2015							
Outstanding claim liabilities	450.6	169.2	101.2	135.5	43.2	1.5	450.6
Other	149.6	26.3	–	123.3	–	–	149.6

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

a. Currency risk;

b. Interest rate risk; and

c. Equity price risk.

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

d. A market risk policy exists that sets out the assessment and determination of what constitutes market risk for the Syndicate. Compliance with the policy is monitored and exposures and breaches are reported to the risk committee. The policy is reviewed regularly for pertinence and for changes in the risk environment.

e. Strict control over derivative instruments (e.g., derivatives are only permitted to be held to facilitate portfolio management or to reduce investment risk).

f. For assets backing outstanding claims provisions, market risk is managed by matching (within agreed limits) the average duration and currency of assets to the technical provisions they are backing. This helps manage market risk to the extent that changes in the values of assets are matched by a corresponding movement in the values of the technical provisions. Foreign exchange hedges are used to mitigate currency risk where assets and liabilities are not matched.

26. Risk management (continued)

Investment managers

Conning is the principal investment manager for the syndicate's funds.

Conning has been set the objective of managing the main syndicate fixed income portfolios to benchmarks as follows:

Sterling portfolio: 40% Barclays Sterling Credit Corp 1-3 year ex subord/ 60% Barclays Sterling Gilts 1-3 yr.
Euro portfolios: 40% Barclays Euro Corporates 1-3 yr ex subord / 60% Barclays Euro Gov 1-3 yr ex PT,IE,IT,GR ES.
US dollar portfolios: 40% Barclays US Corporate 1-3 yr A+ 1-3 yr / 60% Barclays US Gov 1-3 yr
Canadian dollar portfolios: 100% Barclays Canadian Issues 300MM 1-3 yr.
US dollar Canadian Situs: 100% Barclays US Treasury: 1-3 yr.

The benchmarks are designed to position the portfolio conservatively (short duration and high quality) whilst allowing Conning to add corporate bond positions to the portfolio to enhance overall returns.

The investment allocation (excluding surplus cash) at the year-end can be found in note 10.

Currency risk

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

The Syndicate's functional currency is Sterling and its exposure to foreign exchange risk arises primarily with respect to transactions in Euro, US, Canadian and Australian dollars. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency. Forward currency contracts are in place to eliminate imbalances resulting from regulatory requirements.

The table below summarises the exposure of the financial assets and liabilities to foreign currency exchange risk at the reporting date, as follows:

	GBP £m	Euro €m	USD $m	CAD $m	AUD $m	JPY Ym	SGD $m	Conv £m
Assets	136.2	47.3	740.0	380.4	132.5	218.7	(0.3)	1,077.1
Liabilities	(190.6)	(70.5)	(763.3)	(224.2)	(128.5)	(1,063.8)	(5.3)	(1,083.5)
Net asset/(liabilities) as at 31 December 2016	**(54.4)**	**(23.2)**	**(23.3)**	**156.2**	**4.0**	**(845.1)**	**(5.6)**	**(6.4)**
Currency hedge	28.2	11.4	88.2	(181.4)	–	–	–	–
Net currency balances as at 31 December 2016	**(26.2)**	**(11.8)**	**64.9**	**(25.2)**	**4.0**	**(845.1)**	**(5.6)**	**(6.4)**

	GBP £m	**Euro** €m	**USD** $m	**CAD** $m	**AUD** $m	**JPY** Ym	**SGD** $m	**Conv** £m
Assets	128.0	34.7	649.2	353.1	109.4	993.7	(3.1)	816.4
Liabilities	(186.2)	(45.8)	(645.0)	(213.2)	(82.0)	(1,093.3)	–	(798.8)
Net asset/(liabilities) as at 31 December 2015	**(58.2)**	**(11.1)**	**4.2**	**139.9**	**27.4**	**(99.6)**	**(3.1)**	**17.6**
Currency hedge	29.6	5.4	74.5	(164.4)	–	–	–	–
Net currency balances as at 31 December 2015	**(28.6)**	**(5.7)**	**78.7**	**(24.5)**	**27.4**	**(99.6)**	**(3.1)**	**17.6**

26. Risk management (continued)

Sensitivity to changes in foreign exchange rates

On a quarterly basis the net asset/liability positions by currency of the syndicate balance sheet is assessed to ensure there is a reasonable match to mitigate market risk due to currency fluctuations. As a result decisions maybe taken to buy or sell specific currencies, or purchase FX hedges as appropriate. The syndicate policy is, where practical, to manage surplus assets/(profits) to USD rather than GBP. Particularly as a result of regulatory requirements the long Canadian position is hedged quarterly, using forward contracts, against the Syndicate's short Sterling and Euro positions with any surplus being hedged to US Dollars.

The following table gives an indication of the impact on profit and members' balances of a percentage change in the relative strength of Sterling against the value of the US dollar on information as at 31 December 2016.

£m	Impact on profit and member's balances **2016**	2015
Sterling weakens		
10% against USD	**14.7**	12.1
20% against USD	**33.3**	27.2
Sterling strengthens		
10% against USD	**(12.1)**	(9.9)
20% against USD	**(22.1)**	(18.2)

Interest rate risk

Interest rate risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Floating rate instruments expose the Syndicate to cash flow interest risk, whereas fixed rate instruments expose the Syndicate to fair value interest risk.

The Syndicate has no significant concentration of interest rate risk.

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

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

- Fixed rate financial assets and liabilities; and
- Variable rate financial assets and liabilities;

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

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

26. Risk management (continued)

Changes in variables	Impact on profit £m	Impact on members' balance £m
31 December 2016		
+50 basis points	(3.2)	(3.2)
-50 basis points	3.2	3.2
31 December 2015		
+50 basis points	(2.3)	(2.3)
-50 basis points	2.3	2.3

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

Equity price risk

Equity price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

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

The equity price risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments, diversification plans, limits on investments in each sector and market, and careful and planned use of derivative financial instruments.

There is no significant concentration of equity price risk and it has been assessed that the impact on profit or loss and members' balances is the same.

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

		31 December 2016		31 December 2015	
Changes in variables – market indices	Change in variables £m	Impact on profit £m	Impact on members' balance £m	Impact on profit £m	Impact on members' balance £m
S & P 500	+ 2.5%	2.5	2.5	1.2	1.2
S & P 500	(2.5%)	(2.5)	(2.5)	(1.2)	(1.2)

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

26. Risk management (continued)

Annual venture risk

Under the Lloyd's annual venture regime, the managing agent (AMA) has to show annually that each syndicate under its management has enough support to carry on underwriting. To mitigate the risk that the syndicate will not have sufficient backing to continue to trade, the managing agent has adopted a policy of diversifying the syndicate's capital base.

In order to understand the syndicate's exposure to this risk, the table below shows the capital that backs the syndicate's underwriting.

	2017 %	2016 %	2015 %
Names	6.6	6.7	6.7
Aligned Trade Capital	47.4	39.8	34.1
Argo Group	46.0	53.5	59.2
	100.0	100.0	100.0

Operational Risk

Much of the effect of the syndicate's exposure to operational risks is reflected in the risk headings above, and is mitigated and managed through the exercise of the management controls and actions described above. The main additional exposures are in relation to business continuity, i.e. the risk that the ability of the syndicate to continue in business will be affected by events not reflected under other headings, for example the impact of terrorist activity, and in the management of relationships and arrangements with key individuals. The syndicate maintains a disaster recovery plan for all IT risks, including those relating to the robustness and sustainability of IT infrastructure and business applications, and the arrangements to mitigate those risks. This is monitored and updated regularly. In relation to the disaster recovery plan, the syndicate has established arrangements designed to achieve an appropriate commonality of interest between the syndicate and the suppliers concerned, and these arrangements are reviewed periodically. In addition, the syndicate seeks to reduce the dependence on any individual as far as practically possible, by employing sufficient personnel with appropriate experience and expertise, and by progression planning.

Staff matters

The managing agent considers its staff to be a key resource, and seeks to provide a good working environment for its staff that is safe and complies with appropriate employee legislation. During the year there have not been any actions taken by regulatory bodies with regard to staff matters. All staff are employed through Argo Management Services Limited and their costs where appropriate are recharged to the syndicate.

Environmental matters

The managing agent is a founder member of the ClimateWise initiative and measures and reports its performance annually in six key areas:

- Risk analysis
- Public policy making
- Climate awareness amongst our customers
- Incorporate climate change into our investment strategies
- Reducing the environmental impact of our business
- Report and be accountable

27. Derivatives

The Syndicate holds forward currency contracts with Argo Group International Holdings Limited.

	2016 £m	2015 £m
Notional value	**108.6**	82.7
Fair value	**–**	–

Section 2
Underwriting Year Accounts

Report of the Directors of the Managing Agent

The directors of the managing agent present their report on the 2014 year of account of Syndicate 1200 as closed at 31 December 2016.

Review of the 2014 year of account

We are pleased to report that the 2014 year has closed with a 8.1% profit on stamp capacity.

Year of account summary	2014 £m
Stamp capacity	350
Stamp premium income	292.1
Stamp utilisation	83.4%
Gross premiums written	389.3
Profit	28.4
Declared profit on stamp	8.1%

A full commentary is provided in the annual accounts for the closing 2014 year of account of Syndicate 1200. Please refer to page 5.

Review of open years and outline of current trading and likely future developments

A full commentary is provided in the annual accounts. Please refer to page 5.

Auditors

The syndicate's auditors, Ernst & Young LLP, have indicated their willingness to continue in the office of syndicate's auditors.

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

D J Harris
Director

16 March 2017

Statement of Managing Agent's Responsibilities

The Insurance Accounts Directive (Lloyd's Syndicates and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") require the managing agent to prepare syndicate underwriting year accounts for each syndicate for any underwriting year which is being closed by reinsurance to close at 31 December. These syndicate underwriting year accounts must give a true and fair view of the result of the closed year of account.

In preparing these syndicate underwriting year accounts, the managing agent is required by the Syndicate Accounting Byelaw (No 8 of 2005) ("the Syndicate Accounting Byelaw"), to:

- select suitable accounting policies which are applied consistently and, where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;

- take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;

- make judgements and estimates that are reasonable and prudent; and

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in these accounts.

The managing agent is responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the syndicate and enable it to ensure that the syndicate underwriting year accounts comply with the 2008 Regulations and the Syndicate Accounting Byelaw. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Independent Auditors

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 1200 2014 CLOSED YEAR OF ACCOUNT

We have audited the syndicate underwriting year accounts for the 2014 year of account of syndicate 1200 ('the syndicate') for the three years ended 31 December 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Member's Balances, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 24 and the Statement of Managing Agent's Responsibilities. The financial reporting framework that has been applied in their preparation is applicable law, the Lloyd's Syndicate Accounting Byelaw (no.8 of 2005) and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'.

This report is made solely to the syndicate's members, as a body, in accordance with the Lloyd's Syndicate Accounting Byelaw (no.8 of 2005) and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor

As explained more fully in the Statement of Managing Agent's Responsibilities set out page 49, the managing agent is responsible for the preparation of the syndicate underwriting year accounts, under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005), which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate underwriting year accounts in accordance with applicable legal and regulatory requirements and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the syndicate underwriting year accounts

An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate underwriting year accounts. In addition, we read all the financial and non-financial information in the Underwriting Year Report and Accounts to identify material inconsistencies with the audited syndicate underwriting year accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate underwriting year accounts

In our opinion the syndicate underwriting year accounts:

- give a true and fair view of the profit for the 2014 closed year of account;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and Financial Reporting Standard 103 'Insurance Contracts'; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and have been properly prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005).

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where The Lloyd's Syndicate Accounting Byelaw (no. 8 of 2005) requires us to report to you if, in our opinion:

- the managing agent in respect of the syndicate has not kept proper accounting records; or
- the syndicate underwriting year accounts are not in agreement with the accounting records.

Ernst & Young LLP

Stuart Wilson *(Senior statutory auditor)*
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

16 March 2017

Income Statement 2014 Year of Account

Closed at the end of 36 months at 31 December 2016

	Note	2014 year of account £m
Technical account – general business		
Earned premiums, net of reinsurance		
Gross premiums written		389.3
Outward reinsurance premiums		(108.9)
Earned premiums, net of reinsurance		280.4
Reinsurance to close premium received, net of reinsurance	3	170.7
Allocated investment return transferred from the non-technical account		0.3
Claims incurred, net of reinsurance		
Claims paid		
Gross amount	2	(192.4)
Reinsurers' share		62.0
Net claims paid		(130.4)
Reinsurance to close premium payable, gross amount	2	(293.1)
Reinsurance recoveries anticipated on the reinsurance to close premium payable	4	101.1
Reinsurance to close premium payable, net of reinsurance	4	(192.0)
Claims incurred, net of reinsurance		(322.4)
Net operating expenses		
Acquisition costs		(95.7)
Administrative expenses		(14.7)
Personal expenses		(5.6)
Net operating expenses	6	(116.0)
Balance on the technical account for general business		13.0
Non-technical account		
Balance on the technical account for general business		13.0
Profit/(loss) on exchange		15.4
Investment income		2.4
Unrealised gains on investments		0.3
Investment expenses and charges		(0.3)
Unrealised losses on investments		(2.1)
Allocated investment return transferred to the technical account for general business	9	(0.3)
Profit for the closed year of account	15	28.4

There are no recognised gains or losses in the accounting period other than those dealt with in the income statement and so no statement of other comprehensive income has been prepared.

Statement of Financial Position 2014 Year of Account

at 31 December 2016

	Note	2014 year of account £m
Assets		
Investments	10	177.5
Debtors		
Debtors arising out of direct insurance operations	11	16.4
Debtors arising out of reinsurance operations	12	61.8
Other debtors	13	3.4
		81.6
Reinsurance recoveries anticipated on gross reinsurance to close premium payable	4	101.1
Other assets		
Cash at bank and in hand		4.2
Other	14	62.5
Prepayments and accrued income		0.3
Total assets		427.2
Liabilities		
Amounts due to members	15	28.2
Reinsurance to close premium payable, gross amount	4	293.1
Creditors		
Creditors arising out of direct insurance operations	16	1.0
Creditors arising out of reinsurance operations	17	96.6
Other creditors including taxation and social security	18	8.3
		105.9
Accruals and deferred income		–
Total liabilities		427.2

Approved by the Board of Argo Managing Agency Limited on 16 March 2017 and signed on its behalf by:

David Harris

D Argyle
Director

D J Harris
Director

Statement of Changes in Members Balances
2014 Year of Account

	2014 year of account £m
Profit for the 2014 closed year of account	28.4
Members' agents' fees	(0.2)
Amounts due to members at 31 December 2016	28.2

Statement of Cash Flows 2014 Year of Account
for the 36 months ended 31 December 2016

	Note	2014 year of account £m
Reconciliation of profit to net cash inflow from operating activities		
Profit for the closed year of account		28.4
Realised and unrealised investments (gains)/losses	19	(60.4)
Net reinsurance to close premium payable	4	192.0
Increase in debtors		(81.9)
Increase in creditors		105.9
Net cash inflow from operating activities		**184.0**
Members' agents' fees paid on behalf of members		(0.2)
Financing activities:		
Increase in inter-year loan		–
	19	183.8
Cash flows were invested as follows:		
Increase in cash holdings	19	2.3
Increase in overseas deposits	19	49.1
Net portfolio investment	19, 20	132.4
Net investment of cash flows	19	183.8

Notes to the Underwriting Year Accounts
for the 2014 closed year of account at 31 December 2016

1. Accounting Policies
Statement of compliance
The syndicate underwriting year accounts have been prepared under the 2008 Regulations and in accordance with the Syndicate Accounting Byelaw (No.8 of 2005) and applicable accounting standards in the United Kingdom. Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (FRS 102) and Financial Reporting Standard 103 'Insurance Contracts' (FRS 103) have been applied to the extent that they are relevant for a proper understanding of the underwriting year accounts.

The 2014 year of account has closed and all assets and liabilities have been transferred to a reinsuring year of account. The result for the year of account was declared in sterling so there is no exchange rate risk. To this extent, the risks that it is exposed to in respect of the reported financial position and financial performance are significantly less than those relating to the open years of account as disclosed in the Syndicate Annual Accounts. Accordingly, these underwriting year accounts do not have associated risk disclosures as required by section 34 of FRS 102. Full disclosures relating to these risks are provided in the syndicate Annual Accounts

Basis of preparation
Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2014 year of account which has been closed by reinsurance to close at 31 December 2016; consequently the statement of financial position, represents the assets and liabilities of the 2014 year of account, and the income statement and statement of cash flows reflect the transactions for that year of account during the 36 month period until closure.

The financial statements for the period ended 31 December 2016 were approved for issue by the board of directors on 16 March 2017.

The financial statements are prepared in sterling which is the functional and presentational currency of the syndicate and rounded to the nearest £0.1m.

As permitted by FRS 103 the syndicate continues to apply the existing accounting policies that were applied prior to this standard for its insurance contracts.

As each syndicate year of account is a separate annual venture, there are no comparative figures.

Judgement and key sources of estimation and uncertainty
Premiums written
Estimates are made for pipeline premiums, including amounts due to the syndicate not yet notified. The main assumption underlying these estimates is that past premium development can be used to project future premium development.

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

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

1. Accounting Policies (continued)

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

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

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

Fair value of financial assets

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

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

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

c. Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.
   See Note 10 for details of financial instruments classified by fair value hierarchy.

Basis of accounting

Underwriting transactions

The underwriting accounts for each year of account are normally kept open for three years before the result on that year is determined. At the end of three years, outstanding liabilities can normally be estimated with sufficient accuracy to permit the year to be closed by payment of a reinsurance to close premium, usually to the successor year of account.

The reinsurance to close premium is determined by reference to outstanding technical provisions, (including those for outstanding claims and unexpired risks) relating to the closed year and to all previous closed years reinsured therein. Although this estimate of net outstanding liabilities must be fair and reasonable, it is implicit in the procedure that ultimate liabilities will differ from the premium so determined. The reinsurance to close premium transfers liability in respect of all claims, reinsurance premiums, return premiums and other payments for the closing year (and previous closed years reinsured therein) to the members of the successor year of account. It also gives members the benefit of refunds, recoveries, premiums due and other income insofar as they have not been credited previously.

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Commission and brokerage are charged to the year of account to which the relevant policy is allocated. Policies written under binding authorities, lineslips or consortium arrangements are allocated to the year of account into which the arrangement incepts. Additional and return premiums follow the year of account of the original premium. Premiums are shown gross of brokerage payable, and exclude taxes and duties levied on them.

Outward reinsurance premiums ceded are attributed to the same year as the original risk being protected.

1. Accounting Policies (continued)

Gross claims paid are allocated to the same year of account where the corresponding premiums are allocated, and include internal and external claims settlement expenses. Notified claims are estimated on a case by case basis as reported, with regard to any information available from loss adjusters, and previous experience of the cost of settling claims with similar characteristics. Reinsurance recoveries are allocated to the year of account to which the claim was charged.

Derivative financial instruments

The Syndicate uses derivatives in the form of forward foreign currency contracts. Such derivative financial instruments are initially recognised at fair value on the date that the derivative contract is entered into and are subsequently re-measured at fair value through the profit or loss at each balance sheet date. The Syndicate has not used hedge accounting for any of its derivatives.

Investments and investment return

Investments are stated at current value as at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions and overseas deposits are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date.

Investment return is wholly allocated to the general business technical account.

Income (including interest accrued at the time of purchase, sale or revaluation of fixed interest securities) and realised and unrealised capital appreciation are allocated to underwriting accounts in proportion to average balances on each underwriting account for the calendar year.

Overseas deposits

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

Taxation

The result for a closed year, net of personal expenses, is accounted to Names and members' agents, on behalf of the underwriting members for whom they act.

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income of the syndicate. Managing agents can recover UK basic rate income tax deducted from syndicate investment income, and consequently any distribution to members or members' agents is gross of tax. Capital appreciation falls within trading income and will also be distributed gross of tax. It remains the responsibility of underwriting members to agree their personal tax liabilities with the Inland Revenue.

All payments on account of United States and Canadian federal income tax, pending receipt of final assessments and reimbursements by Lloyd's, are included in the balance sheet under the heading of other debtors. It is the personal responsibility of members resident in the United States or Canada, to agree and settle their United States or Canadian taxation liabilities. Members resident in other countries for tax purposes are responsible for agreeing and settling any tax liabilities with the taxation authorities of their country of residence.

Syndicate operating expenses

Syndicate operating expenses are allocated to the year of account for which they are incurred.

Where expenses are incurred by or on behalf of the managing agent for the administration of the managed syndicate, they are apportioned using methods appropriate to the type of expense. Expenses which are incurred jointly for the managing agent and managed syndicate are apportioned between the managing agent and syndicate on bases dependant upon the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses do not include expenses incurred in the settlement of claims.

Syndicate staff participate in a profit sharing scheme that reflects annually accounted profit of the syndicate and the Argo Group. This is paid to staff in April annually.

1. Accounting Policies (continued)

Pension costs

Argo Management Services Limited is a service company which operates a defined contribution pension scheme. Pension contributions are recharged to group companies and the syndicate based on employees' time and are included within net operating expenses.

Profit commission

Profit commission within these financial statements is charged at a rate of 15% on the first 15% of the return of the stamp and 20% thereafter. Profit commission is payable on distributed results and is subject to the operation of a three year deficit clause.

Insurance debtors and creditors

Notes 11, 12, 16 and 17 show the totals of all the syndicate's outstanding debit and credit transactions as processed by Xchanging Ins-sure Services Limited; no account has been taken of any offsets which may be applicable in calculating the net amounts due between the syndicate and each of its counterparty insureds, reinsurers or intermediaries as appropriate.

Basis of currency translation

Transactions in euros, US, Canadian, Australian dollars and Japanese yen are translated at average rates of exchange for each calendar year as a proxy for transaction rates. The exception to this is that the reinsurance to close receivable and payable are translated at the transaction rates of exchange ruling at the effective dates of the contracts. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Monetary assets and liabilities are retranslated into sterling at the rate of exchange at the balance sheet date unless contracts to sell currency for sterling have been entered into prior to the year end, in which case the contracted rates are used. Any differences are included in profit and loss on exchange.

Where euros or Canadian dollars are bought or sold relating to the profit or loss of a closed underwriting account after 31 December, any exchange profit or loss arises in the underwriting account into which the liabilities of that year have been reinsured. Where the US dollar element of the profit or loss of a closed underwriting account is bought or sold by members on that year, any exchange profit or loss accrues to those members.

The balance sheet rates of exchange used in respect of items in these accounts were:

31 December 2016	EUR1.17	USD1.25	CAD1.67

Notes to the Underwriting Year Accounts

for the 2014 closed year of account at 31 December 2016

2. Segmental Analysis

An analysis of the technical account balance before investment return is set out below:

2014 year of account	Gross premiums written and earned £m	Gross claims incurred £m	Gross operating expenses £m	Reinsurance balance £m	Total £m
Direct insurance:					
Accident and health	23.7	(16.6)	(9.2)	(1.9)	(4.0)
Motor (third party liability)	–	–	–	–	–
Motor (other classes)	–	–	–	–	–
Marine	7.1	(7.9)	(2.7)	(0.5)	(4.0)
Aviation	9.4	(12.6)	(1.7)	0.6	(4.3)
Transport	6.0	(1.8)	(1.7)	(0.9)	1.6
Energy – Marine	9.9	(6.1)	(2.2)	(5.3)	(3.7)
Energy – Non Marine	7.4	(3.3)	(1.0)	(0.5)	2.6
Fire and other damage to property	101.3	(32.4)	(31.1)	(24.2)	13.6
Third party liability	108.9	(65.0)	(37.1)	(3.6)	3.2
Pecuniary	6.6	(7.1)	(2.0)	0.7	(1.8)
	280.3	(152.8)	(88.7)	(35.6)	3.2
Reinsurance acceptances	279.7	(332.7)	(27.3)	89.8	9.3
Total	560.0	(485.5)	(116.0)	54.2	12.7

Reinsurance acceptances includes the reinsurance to close premium of £170.7m received from the 2014 year of account of Syndicate 1200. All premiums written are for contracts concluded in the UK.

The analysis of gross premiums (excluding RITC received) by geographical area is as follows:

	North America	Caribbean and Latin America	UK	Rest of Europe	Oceania	Rest of World	Total
£m	173.7	14.0	39.9	20.5	15.3	125.9	389.3

3. Reinsurance premium received to close the 2013 account and previous

	2013 year of account £m
Gross reinsurance to close received	270.2
Reinsurance recoveries anticipated	(99.5)
Reinsurance to close premium received, net of reinsurance	170.7

4. Reinsurance premium payable to close the 2014 account and previous

	2014 year of account £m
Gross outstanding claims	193.2
Reinsurance recoveries anticipated	(73.0)
Net outstanding claims	120.2
Provision for gross claims incurred but not reported	97.9
Reinsurance recoveries anticipated	(28.1)
Provision for net claims incurred but not reported	69.8
Claims handling provision	2.0
Net premium for reinsurance to close	192.0

The 2014 year of account and previous years have been reinsured to close into the 2015 year of account.

5. Technical account balance before allocated investment return and net operating expenses

	2014 year of account £m
Balance excluding investment return and operating expenses, other than acquisition costs	
Profit attributable to business allocated to the 2014 pure year of account	21.2
Profit attributable to business reinsured into the 2014 year of account	16.3
	37.5
Allocated investment return transferred from the non- technical Account	0.3
Net operating expenses other than acquisition costs	(9.4)
	28.4

6. Net operating expenses

	2014 year of account £m
Brokerage and commission	77.4
Other acquisition costs	18.3
Acquisition costs	95.7
Administrative expenses excluding personal expenses	14.7
Lloyd's central fund contributions	1.5
Lloyd's subscriptions	1.4
Managing agent's fees	2.1
Managing agent's profit commission	0.6
Personal expenses	5.6
	116.0
Administrative expenses include:	
Auditors' remuneration consisting of audit and other services	0.2

Notes to the Underwriting Year Accounts
for the 2014 closed year of account at 31 December 2016

7. Employees
All staff are employed by Argo Management Services Limited (AMS). The following amounts were recharged to the syndicate as salary costs (this excludes any benefits where the costs are retained elsewhere in the managing agency or other companies in the group):

	2014 year of account £m
Wages and salaries	19.2
Social security costs	2.8
Pension costs	1.5
Other	0.5
	24.0

The average number of full-time equivalent employees employed by AMS but working for the syndicate during the three years was as follows:

	2014 year of account
Underwriting	81
Administration and finance	74
Claims	13
Investments	1
	169

8. Directors' and active underwriter's emoluments
The directors of Argo Managing Agency Limited received the following aggregate remuneration, charged to the syndicate and included within net operating expenses:

	2014 year of account £m
Emoluments	1.1
Payments to defined contribution pension schemes	0.1
	1.2

The active underwriter received the following aggregate remuneration, charged as a syndicate expense:

	2014 year of account £m
Emoluments	0.3
Payments to defined contribution pension schemes	–
	0.3

The above amounts exclude any benefits not recharged to the syndicate.

The active underwriters profit share remuneration are charged to Argo Managing Agency Limited and will be reported in that company's accounts.

9. Net investment income and expenses

	2014 year of account £m
Income from investments	7.2
Gains on realisation of investments	15.3
Losses on realisation of investments	(20.1)
Unrealised gains on investments	0.3
Unrealised losses on investments	(2.1)
	0.6
Investment management expenses, including interest	(0.3)
	0.3

For further information regarding investment income and average funds, please refer to note 10 of the annual accounts.

10. Investments

	2014 year of account	
	Market value £m	Cost £m
Shares and other variable yield securities and units in unit trusts	10.5	10.3
Debt securities and other fixed income securities	167.0	166.8
Participations in investment pools	–	–
	177.5	177.1

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

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Shares and other variable yield securities and units in unit trusts	10.5	–	–	10.5
Debt securities and other fixed income securities	6.4	160.6	–	167.0
Participation in investment pools	–	–	–	–
Loans and deposits with credit institutions	6.4	56.1	–	62.5
	23.3	216.7	–	240.0

11. Debtors arising out of direct insurance operations

	2014 year of account £m
Due within one year: intermediaries	16.4

12. Debtors arising out of reinsurance operations

	2014 year of account £m
Due within one year	61.8

Notes to the Underwriting Year Accounts
for the 2014 closed year of account at 31 December 2016

13. Other debtors

	2014 year of account £m
Due within one year:	
Due to Argo Management Services Limited	–
Due from Argo Underwriting Agency	1.6
Federal income tax	1.7
Recoverable taxes	0.1
	3.4

The investment trade debtor represents investment sales where the settlement date was post year end. This amount has now been received.

14. Other assets

	2014 year of account £m
Overseas deposits in Australia	36.4
Overseas deposits in Illinois and Kentucky, USA	1.9
Overseas deposits in South Africa and other countries	24.2
	62.5

Overseas deposits were placed as a condition of carrying on business in these territories.

15. Amounts due to members

	2014 year of account £m
Profit for the 2014 closed year of account	28.4
Members' agents' fees	(0.2)
Amounts due to members at 31 December 2016	28.2

16. Creditors arising out of direct insurance operations

	2014 year of account £m
Due within one year: intermediaries	1.0

17. Creditors arising out of reinsurance operations

	2014 year of account £m
Due within one year	1.0
Due after one year	95.6
	96.6

18. Other creditors

	2014 year of account £m
Due within one year:	
Due to Argo Management Services Limited	3.5
Argo Managing Agency Limited	0.1
Argo Direct Limited	0.6
Profit commission payable	0.6
Service company commission payable	0.6
Deferred investment income on whole account quota share	2.9
	8.3

19. Movement in cash, portfolio investments and financing

	At 1 January 2015 £m	RITC porfolio assets received £m	Other cash flow £m	Total cash flow £m	Changes to market value and currencies £m	At 31 December 2016 £m
Cash at bank and in hand	–	8.3	(6.0)	2.3	1.9	4.2
Overseas deposits	–	48.3	0.8	49.1	13.4	62.5
Total cash and deposits	–	56.6	(5.2)	51.4	15.3	66.7
Shares and other variable yield securities and units in unit trusts	–	15.9	(11.4)	4.5	6.0	10.5
Debt securities and other fixed income securities	–	107.4	20.5	127.9	39.1	167.0
Participations in investment pools	–	0.1	(0.1)	–	–	–
Total portfolio investments	–	123.4	9.0	132.4	45.1	177.5
Total cash, portfolio investments and financing	–	180.0	3.8	183.8	60.4	244.2

Consideration for the net reinsurance to close premium received comprised:

	Consideration received £m
Cash at bank and in hand	4.2
Overseas deposits	62.5
Portfolio investments	177.5
Debtors	(78.4)
Creditors	102.4
Consideration for net reinsurance to close premium received	268.2

Notes to the Underwriting Year Accounts
for the 2014 closed year of account at 31 December 2016

20. Net cash outflow on portfolio investments

	2014 year of account £m
Purchase of shares and other variable yield securities and units in unit trusts	301.1
Purchase of debt securities and other fixed income securities	201.1
Purchase of participation in investment pools	0.1
Sales of shares and other variable yield securities and units in unit trusts	(296.6)
Sale of debt securities and other fixed income securities	(73.2)
Sale of participation in investment pools	(0.1)
Net cash outflow on portfolio investments	132.4

21. Post balance sheet events
The reinsurance premium to close the 2014 year of account at 31 December 2016 was agreed by the managing agent on 16 February 2017. The technical provisions at 31 December 2016 have been presented in the balance sheet under the headings "reinsurance recoveries anticipated on gross reinsurance to close premium payable" and "reinsurance to close premium payable, gross amount" in accordance with the format prescribed by the Syndicate Accounting Byelaw.

The following amounts will be transferred to members' personal reserve funds in April 2017 in sterling:

	£m
2014 year of account	28.2

22. Related parties
All related party information is provided in note 23 to the annual accounts. This is shown on page 28.

23. Pension obligations
AMS operates a defined contribution pension scheme for its employees including syndicate staff. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses. The cost of the contributions made was £1.8m and there were no outstanding or prepaid contributions at the end of this year.

24. Argo Direct Limited
Argo Direct Limited (ADL) is a 100 percent subsidiary of AMA, set up to write small to medium size commercial liability risks. Any profits or losses incurred by the UK branch are paid to or reimbursed by the syndicate. At December 2016, ADL received commission income of £0.6m in respect of premium signed. No directors or officers of the managing agency receive any remuneration or benefits from ADL.

Five Year Summary

Year of account	2010	2011	2012	2013	2014
Syndicate allocated capacity in £'000	349,892	350,000	350,000	349,975	349,950
Number of underwriting members	492	442	358	301	303
Aggregate net premiums in £'000	278,280	280,291	259,671	258,872	280,380
Capacity utilised	68.6%	80.7%	89.6%	84.9%	83.5%
Net capacity utilised	54.8%	59.5%	53.3%	53.0%	58.0%
Underwriting result as % of stamp	0.7%	2.1%	7.1%	7.8%	8.1%

Results for an illustrative share of £10,000	£	£	£	£	£
Gross premiums	9,316	10,636	11,981	11,286	11,124
Outward reinsurance premium	(1,363)	(2,628)	(4,561)	(3,889)	(3,113)
Net premiums	7,953	8,008	7,420	7,397	8,011
Reinsurance to close premium received, net of reinsurance	8,646	2,849	3,704	3,880	4,878
Gross claims paid	(11,536)	(5,632)	(4,910)	(4,810)	(5,496)
Reinsurers' share	862	1,832	1,160	1,525	1,771
Net claims	(10,674)	(3,800)	(3,750)	(3,285)	(3,725)
Reinsurance to close premium payable gross amount	(9,616)	(9,901)	(6,249)	(6,815)	(8,374)
Reinsurance recoveries anticipated on reinsurance to close premium payable	6,766	6,195	2,369	2,544	2,888
Reinsurance to close premium payable, net of reinsurance	(2,850)	(3,706)	(3,880)	(4,271)	(5,486)
Brokerage and commission	(2,469)	(2,054)	(2,087)	(2,097)	(2,211)
Other acquisition costs	(244)	(271)	(312)	(374)	(523)
Administrative expenses, before personal expenses	(494)	(541)	(226)	(235)	(420)
Syndicate operating expenses	(3,207)	(2,866)	(2,625)	(2,706)	(3,154)
Balance on technical account	(132)	485	869	1,015	524
Investment return	425	151	140	442	8
Profit/(loss) on exchange	(91)	(286)	(160)	(524)	441
Profit/(loss) before personal expenses	202	350	849	933	973
Illustrative personal expenses Managing agent's fee	(60)	(60)	(60)	(60)	(60)
Managing agent's profit commission	–	(5)	(12)	(13)	(18)
Lloyd's central fund contribution	(33)	(39)	(22)	(40)	(42)
Lloyd's subscription	(33)	(39)	(44)	(42)	(41)
Profit/(loss) after illustrative profit commission and illustrative personal expenses	76	207	711	778	812

The results and illustrative share figures for 2010 to 2012 were prepared under applicable accounting standards at the time and have not been restated for any subsequent changes to accounting standards.

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