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MS Amlin Underwriting Limited
Syndicate 2001

Annual Report

31 December 2016

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Five year financial highlights

Year ended 31 December	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Syndicate allocated capacity	1,400.0	1,400.0	1,400.0	1,400.0	1,175.0
Gross written premiums	1,830.7	1,653.9	1,537.9	1,471.7	1,470.1
Net written premiums	1,357.6	1,217.6	1,135.0	1,043.7	1,060.2
Net earned premiums	1,294.9	1,107.8	1,101.9	1,007.8	1,001.4
Net claims incurred	(813.5)	(538.4)	(605.2)	(516.8)	(548.2)
Expenses	(571.1)	(479.4)	(425.2)	(407.5)	(390.7)
Foreign exchange gains/(losses)	16.3	11.5	(15.4)	(4.1)	(9.4)
Investment return	38.3	32.8	38.9	50.1	41.8
Profit/(loss) for the financial year	(35.1)	134.3	95.0	129.5	94.9
Claims ratio	63%	49%	55%	51%	55%
Expense ratio	40%	39%	37%	38%	37%
Combined ratio	103%	88%	92%	89%	92%

The Syndicate performance data shown in the table above is presented on an annual accounting basis and in accordance with Regulation 5 the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) ("the Regulations"), and in compliance with United Kingdom Accounting Standards including Financial Reporting Standard 102, 'The Financial Reporting Standard Applicable in the UK and the Republic of Ireland' (FRS 102) and Financial Reporting Standard 103, 'Insurance Contracts' (FRS 103). Years 2012 to 2013 of the above have not been restated for FRS 102 and FRS 103.

In calculating the expense and combined ratios, personal expenses payable to the managing agent of £34.9million (2015: £33.6 million) have been excluded.

Directors and administration

Managing agent
MS Amlin Underwriting Limited

Directors
S C W Beale
Non-executive

G A M Bonvarlet
Independent non-executive

P J Calnan
Independent non-executive

T C Clementi
Chief Executive Officer

M R Clements

J A Collinson

E C Graham

R E Heppell
Chief Financial Officer

D G Peters

M B Rodden

M J Taffs

D Thornton
Independent non-executive

Active Underwriters
M R Clements
D G Peters
M J Taffs

Company Secretary
F Moule (appointed 1 August 2016)
T H Vero (resigned 1 August 2016)

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

Managing agent's registered number
2323018

Report of the directors of the managing agent

The directors of the managing agent, MS Amlin Underwriting Limited (the managing agent), present their annual report for Syndicate 2001 ("the Syndicate") for the year ended 31 December 2016.

The annual report is prepared using the annual basis of accounting as required by Statutory Instrument No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") and in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Ireland", FRS 103 "Insurance Contracts" and applicable law).

The Syndicate is, through intermediate holding companies, a wholly aligned Syndicate of MS Amlin plc. On 1 February 2016 Amlin plc was acquired by Mitsui Sumitomo Insurance Company Limited (MSI) and the ultimate parent became MS&AD Insurance Group Holdings, Inc.

From 1 January 2017, the underwriting business of Syndicate 3210 was renewed into Syndicate 2001 and Syndicate 3210's 2016 and prior years of account were placed in run-off. Syndicate 3210 is supported by MSI Corporate Capital Limited (MSICC) and as a result of the run-off, on-going underwriting has been consolidated into one member, MS Amlin Corporate Member Limited (MS ACM) (the continuing Corporate Member), from 1 January 2017. In December 2016, Funds at Lloyd's (FAL) were made inter-available between MSICC and MS ACM in order to allow the existing capital arrangements to continue supporting the open years of account for Syndicate 3210 in run-off and the 2017 year of account onwards for Syndicate 2001.

1. Strategic Report

Principal activity and review of the business

The principal activity of Syndicate 2001 remains the transaction of general insurance and reinsurance business in the United Kingdom.

The total premium income capacity of the Syndicate for each of the years of account open during 2016 was as follows:

	£m
2014 year of account	1,400.0
2015 year of account	1,400.0
2016 year of account	1,400.0

The result for calendar year 2016 is a loss of £35.1 million (2015: £134.3 million profit).

Underwriting performance

	2016 £m	2015 £m
Gross written premiums	1,830.7	1,653.9
Net written premiums	1,357.6	1,217.6
Net earned premiums	1,294.9	1,107.8
Claims ratio %	63	49
Expense ratio %	40	39
Combined ratio %	103	88

The underwriting result is a loss of £70.3 million (balance on the technical account less allocated investment return) (2015: £90.0 million profit) with the overall combined ratio deteriorating to 103% (2015: 88%).

The underwriting loss includes releases from reserves established in prior years of £39.8 million (2015: £38.3 million).

Gross written premiums increased to £1,830.7million (2015: £1,653.9 million), an increase of 10.7% in spite of challenging market conditions.

Net earned premiums increased by £187.1 million to £1,294.9 million (2015: £1,107.8 million).

The Syndicate's claims ratio deteriorated significantly to 63% (2015: 49%), reflecting a number of large catastrophe losses experienced during the year and the impact of the change in Ogden rates as explained below.

The increase in the expense ratio is largely due to an uplift in project costs associated with the alignment of group-wide systems and processes.

In calculating the expense and combined ratios, personal expenses payable to the managing agency of £34.9million (2015: £33.6 million) have been excluded.

The non-technical account includes a foreign exchange gain of £16.3 million in 2016 (2015: £11.5 million gain) arising from the translation of foreign currency net positions at closing rates of exchange.

Ogden change in discount rate

On 27 February 2017, the Lord Chancellor announced the reduction in the discount rate which UK courts must consider when awarding compensation for future financial losses in the form of a lump sum in personal injury cases from 2.5% to minus 0.75%. The discount rate was last set in 2001 and was based on a three year average of real yields on Index Linked Gilts. Since 2001, the real yields on Index Linked Gilts have fallen but the decision was made to continue to use the three year average of real returns on Index Linked Gilts as the basis for this compensation.

The announcement had a significant effect on the value of future claims for UK motor and liability insurance. The impact of the Ogden rate change for the Syndicate was a £53.9 million increase in Gross IBNR (all in the P&C SBU) and a net impact of £30.3 million.

Strategic Business Units (SBU) Performance

The Syndicate operations are managed across three Strategic Business Units; Reinsurance, Property and Casualty, and Marine and Aviation. This report analyses the underwriting performance under this structure.

It should be noted that included within the Syndicate result are certain group related activities which are unrelated to the performance of the SBUs and therefore are not included in the following SBU analysis.

	2016 £m	2015 £m
Reinsurance		
Gross written premiums	621.4	576.1
Net written premiums	407.3	375.8
Net earned premiums	368.0	330.4
Claims ratio %	54	33
Expense ratio %	38	29
Combined ratio %	92	62

Reinsurance generated £621.4million of gross written premium, an increase of £45.3 million on the prior year, despite the continued softening rate environment reflected in an average rate decrease of 5.0% for the year (2015: decrease of 7.8%). The increase reflects the strengthening of USD against GBP of 16.3% in the year. In addition, our Miami business, launched in October 2014 to access Latin American business, continues to develop, writing income of

Report of the directors of the managing agent *continued*
For the year ended 31 December 2016

£18.9 million and Leadenhall Capital Partners have written £28.2 million more business fronted by the Syndicate.

The claims ratio deteriorated to 54% (2015: 33%) as a result of significant catastrophe activity and a higher volume of larger losses, partly offset by increased prior period reserve releases predominantly in the Property Catastrophe classes.

The catastrophe losses impacting the result include Alberta wildfire (£45.8million), Taiwan earthquake (£13.3 million), Hurricane Matthew (£20.2million), New Zealand earthquake (£13.0 million) and Space X (£3.4 million).

	2016 £m	2015 £m
Marine and Aviation		
Gross written premiums	356.0	331.0
Net written premiums	276.1	256.6
Net earned premiums	270.4	218.8
Claims ratio %	62	50
Expense ratio %	48	48
Combined ratio %	110	98

Marine and Aviation generated £356.0 million of gross written premium, growth on the prior year of £25.0 million, driven by increases in the War and Fixed Premium P&I (transferred from Amlin Insurance S.E.) portfolios and material favourable foreign exchange. These increases were partially offset by a material shortfall on the Energy class, as a result of unfavourable global oil prices reducing construction and drilling activity, together with excess market capacity.

The claims ratio increased to 62% (2015: 50%) as a consequence of catastrophe activity (Hurricane Matthew £3.8 million and Space X £4.1 million) together with £23.0 million of prior period reserve strengthening, resulting from adverse attritional experience and material large loss development.

	2016 £m	2015 £m
Property and Casualty		
Gross written premiums	853.2	738.0
Net written premiums	676.1	586.1
Net earned premiums	655.4	564.0
Claims ratio %	71	56
Expense ratio %	43	41
Combined ratio %	114	97

Property and Casualty generated £853.2 million of gross written premium, an increase of £115.2 million on prior year (2015: £738.0 million), driven by materially favourable foreign exchange in the International Business and more modest underlying growth on UK property and casualty portfolios. Renewal rates in the UK continued to rise, with an average increase of 1.5%, but this was offset by increased rating pressure in the International business which experienced average renewal rates reductions of 2.3%.

The claims ratio has deteriorated by 15% to 71% impacted by catastrophe losses (including Hurricane Matthew £8 million) and a number of significant large losses (over £1million). The International Business has also been impacted by a shift in the mix of business towards higher loss ratio auto and casualty business. In the domestic UK business reserves have been strengthened by £33 million due to the recently announced change in the discount rates ("Ogden" rates) announced by the Lord Chancellor. This has deteriorated the claims ratio by 5%.

Investment performance

The Syndicate produced an investment return of £38.3 million in the year (2015: £32.8 million). Syndicate underwriting assets, predominantly bonds and overseas deposits, generated £9.7 million at a return of 1.0% (2015: £13.5 million and 1.3%). Corporate member capital generated a gain of £28.6 million at a return of 4.0% (2015: £19.3 million and 2.9%).

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

The improved macroeconomic outlook should provide support for property and equity market performance via higher rental or earnings growth. Fixed income yields are still very low when compared historically, despite recent increases. We expect bond yields to rise further and therefore continue to run asset durations lower than that of liabilities within underwriting portfolios.

At 31 December 2016, investments amounted to £1,817.2 million (2015: £1,673.1million). Directly held short-dated bonds accounted for 25.6% of the portfolio (2015: 28.4%) with the residual of the portfolio held mostly in collective investment schemes and shares. The bond portfolio remains of a high quality with 23.0% of the portfolio government and government agency backed, 2.4% AA or A-rated non-government.

The principal risks and uncertainties of the business are addressed within the notes to the financial statements on pages 12 to 39.

2. Directors' Report

Future developments

Syndicate 2001's underwriting capacity for 2017 is £1,850 million (2016: £1,400 million). The Syndicate will continue to transact predominantly the current classes of general insurance and reinsurance business.

Disclosure of information to auditors

Each director at the date of the approval of this report confirms that:

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

The current directors of the managing agent are shown on page 3. Since 1 January 2016, the following changes to the Board of Directors have occurred:

Name	Date of resignation
A P Springett	8 January 2016
H Smeets-Flier	3 May 2016
N J C Buchanan	3 May 2016
W A McKee	19 December 2016
C D Forbes	31 January 2017
D G Turner	7 March 2017

Report of the directors of the managing agent *continued*
For the year ended 31 December 2016

Name	Date of appointment
M B Rodden	7 January 2016
T C Clementi	11 January 2016
P J Calnan	14 January 2016
W A McKee	2 March 2016
C D Forbes	15 March 2016
R E Heppell	3 May 2016
J A Collinson	24 February 2017

hence for taking reasonable steps for prevention and detection of fraud and other irregularities.

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

By order of the Board



T C Clementi
Chief Executive Officer

21 March 2017

The Syndicate has considerable financial resources to meet its financial needs and manages a mature portfolio of insurance risk through an experienced and stable team. The directors believe that the Syndicate is well positioned to manage its business risks successfully in the current economic environment.

After making enquiries, the directors have a reasonable expectation that the Syndicate has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Independent auditors

During the current year PricewaterhouseCoopers LLP resigned as auditors of the Company and were replaced by KPMG LLP. Pursuant to Section 14 (2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditor will be deemed reappointed and KPMG LLP will therefore continue in office.

3. Statement of managing agent's responsibilities

The directors of the managing agent are responsible for preparing the Syndicate annual report and annual accounts in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the 2008 Regulations") require the managing agent to prepare Syndicate annual accounts at 31 December each year in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Ireland", FRS 103 "Insurance Contracts" and applicable law). The annual accounts are required by law to give a true and fair view of the state of affairs of the Syndicate as at that date and of its profit or loss for that year.

In preparing the Syndicate annual accounts, the directors of the managing agent are required to:

- select suitable accounting policies which are applied consistently;
- make judgements and estimates that are reasonable and prudent;
- follow applicable UK accounting standards, including FRS 102 and FRS 103, subject to any material departures disclosed and explained in the annual report; and
- prepare the financial statements on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that the Syndicate will do so.

The directors of the managing agent are 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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. It is also responsible for the system of internal control, for safeguarding the assets of the Syndicate and

Independent auditor's report to the member of Syndicate 2001

Report on the Syndicate annual accounts

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE

We have audited the financial statements of the Syndicate for the year ended 31 December 2016, as set out on pages 8 to 39. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of the directors of the managing agent and auditor

As explained more fully in the Statement of Managing Agent's Directors' Responsibilities set out on page 6, the managing agent's directors are responsible for the preparation of the syndicate's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the syndicate's financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

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

In our opinion the information given in the Report of the Directors of the Managing Agent is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.



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

21 March 2017

Statement of profit or loss
For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Technical account – general business			
Earned premiums, net of reinsurance			
Gross written premiums	2	1,830.7	1,653.9
Outward reinsurance premiums		(473.1)	(436.3)
Net written premiums		1,357.6	1,217.6
Change in the provision for unearned premiums			
Gross amount	9(c)	(72.0)	(129.9)
Reinsurers' share	9(c)	9.3	20.1
Change in the net provision for unearned premiums	9(c)	(62.7)	(109.8)
Earned premiums, net of reinsurance		1,294.9	1,107.8
Allocated investment return transferred from the non-technical account		9.7	13.5
Claims incurred, net of reinsurance			
Claims paid			
Gross amount	9(a)	(831.3)	(792.2)
Reinsurers' share	9(a)	206.1	185.0
Net claims paid	9(a)	(625.2)	(607.2)
Change in the provision for claims			
Gross amount	9(a)	(258.2)	91.9
Reinsurers' share	9(a)	69.9	(23.1)
Change in the net provision for claims	9(a)	(188.3)	68.8
Claims incurred, net of reinsurance	9(a)	(813.5)	(538.4)
Net operating expenses	3	(571.1)	(479.4)
Balance on the technical account for general business		(80.0)	103.5

All operations of the Syndicate are continuing.

	Notes	2016 £m	2015 £m
Non-technical account – general business			
Balance on the general business technical account		(80.0)	103.5
Investment income	6	21.0	20.3
Realised (losses)/ gains on investments	6	(37.1)	22.6
Unrealised gains/ (losses) on investments	6	56.1	(9.0)
Investment expenses and charges	6	(1.7)	(1.1)
Allocated investment return transferred to general business technical account		(9.7)	(13.5)
Foreign exchange gains		16.3	11.5
(Loss)/ Profit for the financial year		(35.1)	134.3

All operations of the Syndicate are continuing.

There were no amounts recognised in other comprehensive income in the current or preceding year other than those included in the Statement of profit or loss. Therefore no Statement of other comprehensive income has been presented.

Statement of financial position
At 31 December 2016

	Note	2016 £m	2015 £m
Investments			
Financial investments	8(b)	1,817.2	1,673.1
Reinsurers' share of technical provisions			
Provision for unearned premiums	9(c)	218.1	183.0
Claims outstanding	9(a)	486.1	422.9
		704.2	605.9
Debtors			
Debtors arising out of direct insurance operations		356.7	241.8
Debtors arising out of reinsurance operations		792.0	573.5
Other debtors	8(c)	245.9	238.9
		1,394.6	1,054.2
Other assets			
Cash at bank and in hand	8(a)	16.7	4.6
Overseas deposits	10	134.3	101.5
		151.0	106.1
Prepayments and accrued income			
Deferred acquisition costs	9(d)	280.3	236.8
Other prepayments and accrued income		36.3	27.8
		316.6	264.6
Total assets		4,383.6	3,703.9
Capital and reserves			
Member's balances	12	652.0	767.7
Technical provisions			
Provision for unearned premiums	9(c)	1,159.9	946.6
Claims outstanding	9(a)	2,068.0	1,601.0
		3,227.9	2,547.6
Creditors			
Creditors arising out of direct insurance operations		69.5	51.9
Creditors arising out of reinsurance operations		289.9	197.7
Other creditors	8(d)	144.3	139.0
		503.7	388.6
Total liabilities		4,383.6	3,703.9

The financial statements on pages 8 to 39 were approved and authorised for issue by the Board of Directors of MS Amlin Underwriting Limited and signed on its behalf by:



R E Heppell
Chief Financial Officer

21 March 2017

Statement of cash flows
For the year ended 31 December 2016

	Note	2016 £m	2015 £m
Operating result		(35.1)	134.3
Increase in gross technical provisions		680.3	72.5
Increase in reinsurers' share technical provisions		(98.3)	(21.7)
Increase in debtors		(392.3)	(145.5)
Increase /(decrease) in creditors		115.1	(23.3)
Net unrealised foreign exchange gains		(157.8)	(12.7)
Investment return		(5.5)	(32.8)
Net cash inflow/(outflow)from operating activities		106.4	(29.2)
Cash flows from investing activities			
Purchase of equity and debt instruments		(3,265.9)	(628.7)
Sale of equity and debt instruments		3,247.7	660.9
Sale of derivatives		–	2.4
Investment income and movements in equity investments		31.6	12.3
Other - Participation in group hedging arrangement		–	23.8
Net cash inflow from investing activities		13.4	70.7
Cash flows from financing activities			
Distribution of profit		(107.0)	(70.3)
FIS additions		104.8	80.9
FIS released to member		(97.3)	(52.6)
Other – Foreign exchange		(7.6)	(0.2)
Net cash outflow from financing activities		(107.1)	(42.2)
Net increase/ (decrease) in cash and cash equivalents			
		12.7	(0.7)
Cash and cash equivalents at the beginning of the year		4.0	4.7
Cash and cash equivalents at the end of the year		16.7	4.0
Cash at bank and in hand			
	8(a)	16.7	4.6
Short term deposits with credit institutions		–	(0.6)
Cash and cash equivalents at the end of the year		16.7	4.0

Statement of changes in member's balances
For the year ended 31 December 2016

	Note	2016 £m	2015 £m
At 1 January		112.1	67.4
Balance on technical account for the financial year		(80.0)	103.5
Foreign exchange gains recognised in non-technical account		16.3	11.5
Transfer to member in respect of underwriting participations		(107.0)	(70.3)
At 31 December		(58.6)	112.1
Funds deposited by MS Amlin Corporate Member Limited			
At 1 January		655.6	584.2
Profit for the financial year		28.6	19.3
Funds deposited in financial year		26.4	52.1
Amounts owed to MS Amlin Corporate Member Limited	12	710.6	655.6
At 31 December		652.0	767.7

Members participate on Syndicates by reference to years of account and their ultimate result. Assets and liabilities are assessed with reference to policies incepting in that year of account in respect of their membership of a particular year. MS Amlin Corporate Member Limited is a wholly owned subsidiary of MS Amlin plc.

Notes to the financial statements *continued*
For the year ended 31 December 2016

1. Basis of preparation

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

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

Amendments to published standards early adopted by the Syndicate

The Syndicate has early adopted Amendments to FRS 102 Fair value hierarchy disclosures. These amendments increase the consistency with the disclosures required by EU adopted IFRS.

Adopting these amendments has impacted disclosure only and has not impacted the assets, liabilities, income or expenses of the Syndicate. The effects of early adopting these amendments can be seen in note 8e).

Critical accounting judgements and key sources of estimation uncertainty

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

Insurance contract liabilities

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

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

The Syndicate applies an actuarial-led reserving process, based on an actuarial best estimate plus an explicit management margin, which reflects the risk premium relating to the uncertainty of the actual level of claims incurred. The move to an actuarial-led reserving process has refined the judgement about the profile of risk over the coverage period applied to certain classes of business. Consequently, changes in the estimate of claims should be considered in conjunction with the impact on earned premium, described below.

Although it is possible that claims could develop and exceed the reserves carried, there is therefore a reasonable chance of release of reserves from one year to the next. The estimated provision for the total level of claims incurred changes as more information becomes known about the actual losses for which the initial

provisions were set up. The change in claims costs for prior period insurance claims represents the claims development of earlier reported years incurred in the current accounting period. The carrying value of the Syndicate's net outstanding claims reserves (net of Reinsurer's share) at 31 December 2016 is £1,581.9 million (2015: £1,178.1 million).

Insurance contract premium

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

With over supply of capital, particularly in the reinsurance market, clients have increasingly requested multi-year placements of their reinsurance programme. A number of contracts include cancellation clauses which can be enforced by the client. Judgement is therefore required to be applied in calculating the estimated total premium at the inception of these contracts.

The Syndicate has recognised estimated premium income (EPI) for the current year and a negative EPI adjustment for prior years totalling £1,188.5 million and £9.7million respectively (2015: £848.7 million and £9.5 million, negative).

The calculation of EPI is inherently subjective and attained through a combination of underwriters' best estimates at a policy level and actuarial techniques at a portfolio level, based on observable historical trends. These estimates are reviewed on a quarterly basis by underwriters and independently assessed by the actuarial and finance teams. The estimation of earned premium uses judgement about the profile of risk over the coverage period of (re)insurance contracts.

Product classification

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

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

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

Financial assets and financial liabilities

The Company uses pricing vendor sources in determining the fair value of financial assets and financial liabilities. Depending on the methods and assumptions used (for example, in the fair valuation of Level 2 and Level 3 financial assets), the fair valuation of financial assets and financial liabilities can be subject to estimation uncertainty. Details of these methods and assumptions are described in note 8. The carrying values of the Syndicate's financial assets and financial liabilities at 31 December 2016 are £1,825.6 million (2015: £1,679.9 million) and £8.4 million (2015: £6.8 million) respectively. These include £155.6 million (2015: £133.2

Notes to the financial statements *continued*
For the year ended 31 December 2016

1. Basis of preparation – continued

million) of Level 3 investments, principally comprising property funds.

Significant accounting policies

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

Insurance contracts premiums

Gross written premiums comprise premiums on insurance contracts incepting during the financial year together with adjustments to premium written in previous accounting years. The estimated premium income in respect of facility contracts, for example binding authorities and line slips are deemed to be written in full at the inception of the contract.

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

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

The estimation of earned premium uses judgement about the profile of risk over the coverage period of (re)insurance contracts and reflects the seasonal nature of certain classes of business. This more closely aligns the earning of premium with the seasonal basis of reserving claims.

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

Acquisition costs

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

Reinsurance premiums ceded

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

Insurance contracts liabilities: claims

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

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

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

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

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

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

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

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

Reinsurance recoveries

The benefits to which the Syndicate is entitled under its reinsurance contracts held are recognised as reinsurance assets.

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

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

Notes to the financial statements *continued* For the year ended 31 December 2016

1. Basis of preparation - continued

Financial assets

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

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

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

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

Derivative financial instruments

Derivative financial instruments primarily include currency forwards. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into. They are subsequently measured at fair value, with their fair values obtained from quoted market prices or, where these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. Changes in the fair value of derivative instruments are recognised immediately in the statement of profit or loss. Changes in the fair value of derivatives held to hedge against unmatched foreign exchange exposure are hedge accounted within other operating expenses where they offset foreign exchange gains and losses.

The Syndicate documents at the inception of each hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Syndicate also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Investment return

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

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

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

Taxation

No provision has been made in respect of UK income tax on trading income. It is the responsibility of the member to settle their tax liabilities. Overseas taxation comprises US Federal Income tax and

Canadian Federal Income tax. The amounts charged to the member are collected centrally through Lloyd's Members' Services Unit as part of the member's distribution process. The ultimate tax liability is the responsibility of the underwriting member.

Foreign currencies

The Syndicate maintains seven separate currency funds, namely Sterling, US dollars, Euros, Canadian dollars, New Zealand dollars, Australian dollars and Japanese yen.

(a) Functional and presentation currency

Items included in the financial statements of the Syndicate are measured in Pounds Sterling (£) which is the functional currency of the primary economic environment in which the Syndicate operates. The financial statements are presented in 'Pounds Sterling' (£).

(b) Transactions and balances

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

Loans and receivables

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

Other payables

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

Insurance debtors and creditors

In the normal course of business, for the majority of contracts, settlement is required to be made with Lloyd's Central Accounting, the market settlement bureau, on the basis of the net balance due to or from insurance brokers in total rather than the amounts due to or from the individual parties which they represent. The legal status of this practice of net settlement is uncertain and in the event of an insolvency it is generally abandoned. Accordingly, insurance debtors and creditors, as presented, in respect of both Lloyd's Central Accounting settled business and business that is settled direct with brokers and service companies, comprise respectively the totals of all the Syndicate's individual outstanding debit and credit transactions before any offset. The resultant totals give no indication of future net cash flows.

Syndicate operating expenses

Costs incurred by the managing agent exclusively for the Syndicate are charged to the Syndicate on an accruals basis.

Expenses incurred jointly by the managing agent and the Syndicate are charged to the Syndicate and reflect the costs of services provided and does not include any profit element. The managing agent charges a further management fee of 2.5% of syndicate capacity.

Notes to the financial statements *continued*
For the year ended 31 December 2016

1. Basis of preparation - continued

Retirement benefit costs

Pension contributions are charged to the statement of profit or loss when due.

Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at fair value. For the purposes of the statement of cash flows, cash and cash equivalents comprise cash in hand, deposits held on call with banks, highly liquid investments which are believed to be subject to insignificant risk of change in fair value.

Notes to the financial statements *continued*
For the year ended 31 December 2016

2. Technical account analysis

An analysis of the underwriting result before investment return and net technical provisions is set out below:

2016	Gross written premiums £m	Gross earned premiums £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m	Total £m	Net technical provisions £m	Commissions on gross premiums earned £m
Direct insurance								
Accident and health	26.4	29.7	(19.1)	(9.6)	(2.4)	(1.4)	39.0	(5.8)
Motor (third party liability)	46.7	42.7	(36.6)	(14.9)	0.9	(7.9)	61.7	(8.4)
Motor (other classes)	208.2	186.4	(169.4)	(65.0)	8.7	(39.3)	265.2	(36.6)
Marine, aviation and transport	211.3	210.9	(138.1)	(78.3)	(8.0)	(13.5)	284.0	(41.4)
Fire and other damage to property	241.3	242.4	(132.4)	(81.9)	(21.1)	7.0	331.7	(47.6)
Third party liability	281.0	269.9	(153.1)	(90.6)	(24.0)	2.2	368.6	(53.0)
Miscellaneous	65.3	73.3	(44.2)	(26.6)	(3.8)	(1.3)	98.5	(14.4)
	1,080.2	1,055.3	(692.9)	(366.9)	(49.7)	(54.2)	1,448.7	(207.2)
Reinsurance	750.5	703.4	(396.7)	(204.2)	(138.0)	(35.5)	794.7	(138.4)
Total	1,830.7	1,758.7	(1,089.6)	(571.1)	(187.7)	(89.7)	2,243.4	(345.6)

2015	Gross written premiums £m	Gross earned premiums £m	Gross claims incurred £m	Net operating expenses £m	Reinsurance balance £m	Total £m	Net technical provisions £m	Commissions on gross premiums earned £m
Direct insurance								
Accident and health	23.4	23.0	(5.8)	(6.1)	(6.8)	4.3	22.6	(4.8)
Motor (third party liability)	50.7	44.0	(25.1)	(13.3)	(3.0)	2.6	52.0	(9.5)
Motor (other classes)	210.0	172.6	(114.0)	(59.5)	(2.9)	(3.8)	210.9	(37.4)
Marine, aviation and transport	174.0	163.5	(61.4)	(55.8)	(31.4)	14.9	165.6	(34.7)
Fire and other damage to property	278.7	270.8	(116.0)	(94.7)	(48.4)	11.7	295.9	(58.4)
Third party liability	126.6	123.9	(56.8)	(44.6)	(20.9)	1.6	137.3	(27.1)
Miscellaneous	110.6	103.4	(42.2)	(32.0)	(20.7)	8.5	111.8	(21.9)
	974.0	901.2	(421.3)	(306.0)	(134.1)	39.8	996.1	(193.8)
Reinsurance	679.9	622.8	(279.0)	(173.4)	(120.2)	50.2	708.8	(132.7)
Total	1,653.9	1,524.0	(700.3)	(479.4)	(254.3)	90.0	1,704.9	(326.5)

All premiums are concluded in the UK.

The geographical analysis of gross written premiums by location of client, as a proxy for risk location, is as follows:

	2016 £m	2015 £m
UK	389.2	559.5
Other EU countries	155.9	136.1
USA	824.8	682.7
Other	460.8	275.6
Total	1,830.7	1,653.9

Notes to the financial statements *continued*
For the year ended 31 December 2016

3. Net operating expenses

	2016 £m	2015 £m
Acquisition costs	395.7	360.5
Change in deferred acquisition costs (note 9(d))	(12.5)	(34.0)
Administrative expenses	161.3	135.2
Managing agent's fees	34.9	33.6
Lloyd's charges	17.0	10.0
Reinsurance commission and profit participation	(25.3)	(25.9)
	571.1	479.4
Administrative expenses include:		
Fees payable to the Syndicate's auditor for:		
– Audit of the Syndicate's annual report	(0.5)	(0.3)
– Other audit-related services	(0.2)	(0.1)

Total commissions for direct insurance business for the year amounted to £245.9 million (2015: £214.7 million).

For MS Amlin Underwriting Limited the auditors' remuneration was £15,000 (2015: £15,225).

4. Staff numbers and costs

All staff are employed by MS Amlin Corporate Services Limited, a wholly owned subsidiary of MS Amlin plc and the immediate parent company of the managing agent. The following amounts were recharged to the Syndicate in respect of salary costs:

	2016 £m	2015 £m
Wages and salaries	51.3	45.1
Social security costs	6.0	5.0
Other pension costs	4.1	4.6
	61.4	54.7

Pension costs reflect contributions paid to MS Amlin defined benefit scheme and defined contribution schemes. The defined benefit scheme covers a number of MS Amlin entities and is therefore expensed based on contributions paid.

The average number of employees employed by MS Amlin Corporate Services Limited and provided services to the Syndicate during the year was as follows:

	2016 Number	2015 Number
Senior underwriters	90	85
Other underwriters	80	74
Underwriting support	244	247
Claims staff	51	50
Claims Support	162	179
Operational	297	294
Operational support	178	188
	1,102	1,117

5. Directors' emoluments

The directors of MS Amlin Underwriting Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2016 £'000	2015 £'000
Executive and non-executive directors' emoluments and fees	7,001	3,132
Accrued defined benefit scheme pension	147	81
Defined contribution scheme	82	181
	7,230	3,394

Notes to the financial statements *continued*
For the year ended 31 December 2016

5. Directors' emoluments *continued*

Payments were made to 11 directors (2015: 6) in respect of defined benefit pension schemes and to 5 directors (2015: 11) in respect of defined contribution schemes. No directors exercised share options during the year (2015: 2) and 11 directors were members of long-term incentive schemes (2015: 11).

Included in the executive and non-executive directors' emoluments is £0.7 million relating to compensation to directors for loss of office.

The highest paid director of MS Amlin Underwriting Limited received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:

	2016 £'000	2015 £'000
Executive directors' emoluments	1,647	519
Accrued defined benefit scheme pension	–	18
Defined contribution scheme	7	21
	1,654	558

The highest paid director has not (2015: has) exercised share options during the year and amounts under long-term incentive schemes were not (2015: were) receivable.

The three (2015: three) active underwriters during the year received the following remuneration charged as a Syndicate expense for the period they were appointed:

	2016 £'000	2015 £'000
Executive directors' emoluments	1,590	808
Accrued defined benefit scheme pension	25	34
Defined contribution scheme	34	70
	1,649	912

6. Investment return

	2016 £m	2015 £m
Interest income on cash and cash equivalents	0.5	0.9
Income from financial assets at fair value through profit and loss	20.5	19.4
Investment Income	21.0	20.3
Net realised (losses)/ gains on financial assets measured at fair value through profit or loss	(37.1)	22.6
Net unrealised gains/(losses) on financial assets measured at fair value through profit or loss	56.1	(9.0)
Investment expenses and charges	(1.7)	(1.1)
Total investment return	38.3	32.8

The above figures include investment return of £28.6 million (2015: £19.3 million) on cash, bonds, equity and property investments deposited by MS Amlin Corporate Member Limited into the Syndicate's Premium Trust Fund.

Notes to the financial statements *continued*
For the year ended 31 December 2016

Calendar year investment yield

	2016 £m	2015 £m
Average Syndicate funds available for investment during the year		
Sterling	171.6	229.0
Euro	106.7	88.8
US dollars	645.2	577.7
Canadian dollars	151.0	94.8
Australian dollars	46.3	54.9
New Zealand dollars	30.2	40.3
Japanese yen	9.6	5.7
Combined	1,160.6	1,091.2
Aggregate gross investment return on Syndicate investments for the year (excluding expenses and charges)	10.9	13.2
Gross calendar year investment yield:		
Sterling	0.5%	0.6%
Euro	0.3%	2.3%
US dollars	0.9%	1.1%
Canadian dollars	0.9%	1.2%
Australian dollars	2.5%	1.9%
New Zealand dollars	3.4%	4.1%
Japanese yen	1.2%	0.2%
Combined	0.9%	1.2%

The average amount of Syndicate funds available for investment has been calculated as the monthly average balance of investments and overseas deposits. The yield percentages exclude immaterial sources of income.

7. Foreign exchange risk

The Syndicate's functional and presentation currency is Sterling. The Syndicate holds assets and liability balances in major base currencies of Sterling, Euros, US dollars and Canadian dollars, and additional currencies of New Zealand dollars, Japanese yen and Australian dollars. The Syndicate aims to match the value of the assets held in these currencies with the equivalent liabilities to minimise foreign exchange exposure.

Foreign exchange exposure also arises when business is written in non-functional currencies. These transactions are translated into the functional currency Sterling at the prevailing spot rate once the premiums are received. Consequently there is exposure to currency movements between the exposure being written and the premiums being received. Payments in non-base currencies are converted back into the underlying currency at the time a claim is to be settled; therefore the Syndicate is exposed to exchange rate risk between the claim being made and the settlement being paid.

Foreign exchange risk arises until non-Sterling profits or losses are converted into Sterling. It is the managing agent's policy to mitigate foreign exchange risk by systematically converting non-Sterling profits into Sterling. Given the inherent volatility in some of our business a cautious approach is adopted on the speed and level of sales, but we seek to extinguish all currency risk on earned profit during the second year after the commencement of any underwriting year. The intention is to time the currency transactions in order to optimise the conversion rates. This approach is part of risk management strategy as it avoids the inherent dangers of bulky sales. It is not the intention to take speculative currency positions in order to make currency gains.

The Syndicate will also occasionally transact currencies on a forward basis particularly when trust fund requirements of a particular country require the value of the currency held to be in excess of the liabilities denominated in that currency. Such forward contracts are designated as fair value hedges following an assessment that they will be highly-effective on an ongoing basis. All forward contracts are carried out with well-rated banks, so as to limit the counterparty risk. The investment managers also hold forward foreign exchange contracts in their portfolios at the year-end in order to hedge non-base currency investments. These are marked to market in their valuations.

The table below presents the Syndicate's member's balances by major base currency before the effect of any hedging instruments. The amounts are stated in the sterling equivalent of the local currency using the exchange rates as disclosed in the Group Annual Report.

Notes to the financial statements *continued*
For the year ended 31 December 2016

Currency risk	31 December 2016							Total £m
	Sterling £m	US\$ £m	Euro £m	CAN\$ £m	AUD\$ £m	JPY £m	Other £m	
Financial investments	804.4	745.6	115.6	198.3	52.4	22.2	13.0	1,951.5
Reinsurers' share of technical provisions	275.0	359.3	39.3	30.6	-	-	-	704.2
Insurance and reinsurance receivables	246.3	681.6	94.2	48.4	18.2	3.8	56.2	1,148.7
Cash at bank	9.1	4.2	0.5	-	1.2	1.4	0.3	16.7
Other assets	260.8	234.6	24.3	14.5	9.7	1.2	17.4	562.5
Technical provisions	(935.8)	(1,587.0)	(225.7)	(166.0)	(96.0)	(28.4)	(189.0)	(3,227.9)
Insurance and reinsurance payables	(68.7)	(250.4)	(25.8)	(14.5)	-	-	-	(359.4)
Other creditors	(62.5)	(71.7)	(9.8)	(0.3)	-	-	-	(144.3)
Net assets	528.6	116.2	12.6	111.0	(14.5)	0.2	(102.1)	652.0

Currency risk	31 December 2015							Total £m
	Sterling £m	US\$ £m	Euro £m	CAN\$ £m	AUD\$ £m	JPY £m	Other £m	
Financial investments	888.9	606.1	90.6	100.1	43.0	5.9	40.0	1,774.6
Reinsurers' share of technical provisions	220.3	340.8	30.2	14.6	-	-	-	605.9
Insurance and reinsurance receivables	236.9	500.3	54.3	23.2	-	-	0.6	815.3
Cash at bank	(0.7)	3.2	0.2	-	0.7	1.0	0.2	4.6
Other assets	193.5	274.4	23.6	12.0	-	-	-	503.5
Technical provisions	(932.1)	(1,362.3)	(164.3)	(88.9)	-	-	-	(2,547.6)
Insurance and reinsurance payables	(45.1)	(178.0)	(18.5)	(8.0)	-	-	-	(249.6)
Other creditors	(1.9)	(127.4)	(9.6)	(0.1)	-	-	-	(139.0)
Net assets	559.8	57.1	6.5	52.9	43.7	6.9	40.8	767.7

If the foreign currencies were to strengthen/weaken by 10% against Sterling, the movement in the monetary net assets and liabilities of the Syndicate would result in the following gains/(losses) in the statement of profit or loss at 31 December 2016:

Currency	31 December 2016		31 December 2015	
	10% strengthening of currency against GBP £m	10% weakening of currency against GBP £m	10% strengthening of currency against GBP £m	10% weakening of currency against GBP £m
US dollars	12.8	(10.5)	6.3	(5.2)
Canadian dollars	12.3	(10.0)	5.9	(4.8)
Euro	1.4	(1.1)	0.7	(0.6)
	26.5	(21.6)	12.9	(10.6)

8. Financial assets and liabilities

a) Cash and cash equivalents

	2016 £m	2015 £m
Cash and cash in hand	16.7	4.6

Cash and cash equivalents represent cash at bank and in hand, short-term bank deposits and other short-term highly liquid investments that are subject to insignificant risk of changes in fair value.

Notes to the financial statements *continued*
For the year ended 31 December 2016

8. Financial assets and liabilities *continued*

b) Net financial investments

	At Valuation		At Cost	
	2016 £m	2015 £m	2016 £m	2015 £m
Financial assets at fair value through profit or loss				
Debt securities and other fixed income securities	588.9	475.4	590.3	476.9
Shares and other variable yield securities	281.6	367.5	230.2	333.4
Participation in investment pools	201.3	106.3	201.2	106.3
Holdings in collective investment schemes	750.5	727.8	706.6	708.6
Other investments	3.3	2.9	3.4	2.9
Total financial assets at fair value through profit or loss	1,825.6	1,679.9	1,731.7	1,628.1
Financial liabilities at fair value through profit or loss				
Derivative financial instruments	(8.4)	(6.8)	–	–
Net financial investments	1,817.2	1,673.1	1,731.7	1,628.1
Listed investments included above:				
Debt securities and other fixed income securities	588.9	475.4	590.3	476.9
Shares and other variable yield securities	270.5	236.5	219.1	211.2

Underwriting liabilities are matched by bonds, investment pools, collective investment schemes and cash. Other more volatile assets, including equities, represent capital. Included above are funds of £694.3 million (2015: £655.6 million) deposited by MS Amlin Corporate Member Limited and held as capital assets (Funds in Syndicate (FIS)).

The reconciliation of opening and closing net financial investments is as follows:

	2016 £m	2015 £m
At 1 January	1,673.1	1,664.8
Foreign exchange gains	157.8	12.7
Net (sales)	(32.7)	(18.0)
Net realised (losses)/ gains on assets	(37.1)	22.6
Net unrealised gains/ (losses) on assets	56.1	(9.0)
At 31 December	1,817.2	1,673.1

c) Other debtors

	2016 £m	2015 £m
Receivable from MS Amlin Group companies	210.0	220.7
Other	35.9	18.2
	245.9	238.9

Other debtors are all current.

d) Other creditors

	2016 £m	2015 £m
Payable to MS Amlin Group companies	102.1	117.0
Accruals and deferred income	1.9	9.6
Other	40.3	12.4
	144.3	139.0

Other creditors include non-current balances of £0.1million (2015: £0.1 million).

e) Fair value hierarchy

For financial instruments carried at fair value the Syndicate has categorised the measurement basis into a fair value hierarchy as follows:

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

Notes to the financial statements *continued*
For the year ended 31 December 2016

8. Financial assets and liabilities continued

Level 2: Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

There were no changes to the valuation techniques during the year.

Shares and other variable yield securities

Listed equities traded on a primary exchange in an active market are classified as Level 1.

Debt and other fixed income securities

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

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

Participation in investment pools

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

Derivatives

Listed derivative contracts, such as futures, that are actively traded are valued using quoted prices from the relevant exchange and are classified as Level 1. Over the counter currency options are valued by the counterparty using quantitative models with multiple market inputs such as foreign exchange rate volatility. The market inputs are observable and the valuation can be validated through external sources. These are classified as Level 2.

Notes to the financial statements *continued*
For the year ended 31 December 2016

8. Financial assets and liabilities *continued*

Net financial investments by fair value grouping:

	Fair value hierarchy				Fair value hierarchy			
	Level 1 £m	Level 2 £m	Level 3 £m	Total 2016 £m	Level 1 £m	Level 2 £m	Level 3 £m	Total 2015 £m
Assets								
<i>Financial assets held for trading at fair value through profit or loss</i>								
<i>Debt and other fixed income securities</i>	385.1	203.8	–	588.9	380.3	94.8	0.3	475.4
<i>Shares and other variable yield securities</i>	270.5	–	11.1	281.6	236.5	–	131.0	367.5
<i>Other financial assets at fair value through profit or loss</i>								
<i>Participation in investment pools</i>	201.3	–	–	201.3	106.3	–	–	106.3
<i>Holdings in collective investment schemes</i>	606.0	–	144.5	750.5	727.8	–	–	727.8
<i>Other</i>	1.2	2.1	–	3.3	1.0	–	1.9	2.9
Total financial assets	1,464.1	205.9	155.6	1,825.6	1,451.9	94.8	133.2	1,679.9
Liabilities								
<i>Financial liabilities held for trading at fair value through profit or loss</i>								
<i>Derivative financial instruments</i>	–	(8.4)	–	(8.4)	–	(6.8)	–	(6.8)
Total financial liabilities	–	(8.4)	–	(8.4)	–	(6.8)	–	(6.8)
Net financial investments	1,464.1	197.5	155.6	1,817.2	1,451.9	88.0	133.2	1,673.1

The table above excludes the Syndicate's holdings of cash and cash equivalents of £16.7 million (2015: £4.6 million). These are measured at fair value and are categorised as Level 1.

The majority of the Syndicate's investments are valued based on quoted market information or other observable market data. The Syndicate holds 8.5% (2015: 10.9%) of its net financial investments at a fair value based on estimates and recorded as Level 3 investments. Where estimates are used, these are based on a combination of independent third party evidence and internally developed models, calibrated to market observable data where possible. While such valuations are sensitive to estimates, it is believed that changing one or more of the assumptions to reasonably possible alternative assumptions might result in a higher or lower fair value measurement, though this is unlikely to be significant.

There have been no significant transfers between the different levels during the year.

f) Financial risk management

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

The Syndicate has two main categories of assets:

- Underwriting assets – premium received and held to meet future insurance claims.
- Capital assets – capital required by Lloyd's to support the underwriting business. These represent funds deposited by MS Amlin Corporate Member Limited as Funds in Syndicate (FIS) plus working capital and surplus funds. Apart from the outstanding borrowings, these assets do not have specific current liabilities attached to them.

Investment governance

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

The Investment Management Executive comprises the MS Amlin Group Chief Executive, Chief Finance & Operations Officer and Chief Investment Officer, and meets quarterly to consider whether the strategic asset allocation and tactical asset allocation ranges are

Notes to the financial statements *continued*
For the year ended 31 December 2016

8. Financial assets and liabilities *continued*

appropriate to optimise investment returns within the risk tolerances set by the Boards. The Investment Team, led by the Chief Investment Officer, is responsible for tactical asset allocation and the appointment of external investment managers and custodians.

Risk tolerance

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

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

Strategic asset allocation

The managing agent has determined the Syndicate's strategic asset allocation which is set according to its risk tolerance and liabilities.

The strategic asset allocations for capital assets are set by using a Value at Risk (VaR) model to determine the optimum asset allocation for the current risk tolerance, which ensures that appropriate solvency levels are maintained.

The expected timescale for future cash flows in each currency is calculated by the Actuarial team; the average of these form the basis of our asset liability duration management.

Tactical ranges around these strategic asset allocations provide flexibility to ensure that an appropriate risk/reward balance is maintained in changing investment markets.

Investment management

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

Asset allocation

The total value of investments in the following tables is reconciled to note 8(b), financial assets and financial liabilities, as follows:

	2016 £m	2015 £m
Net financial investments per note 8(b)	1,817.2	1,673.1
<i>Assets/(liabilities) shown separately in the notes to the financial statements:</i>		
Accrued income	1.8	1.2
Net unsettled receivables/ (payables) for investments (purchased)/sold	8.9	(0.5)
Cash funds held by financial institutions	1.4	-
<i>Assets not analysed in the investment asset allocation tables:</i>		
Liquid investments	(0.5)	(0.7)
Unlisted equities	(6.8)	(6.3)
Margin and collateral relating to derivative instruments	-	(0.7)
Total investments in asset allocation tables below	1,822.0	1,666.1

Notes to the financial statements *continued*
For the year ended 31 December 2016

8. Financial assets and liabilities *continued*

The asset allocation of the Syndicate's investments is set out below.

	31 December 2016				31 December 2015			
	Underwriting assets £m	Capital assets £m	Total assets £m	Total %	Underwriting assets £m	Capital assets £m	Total assets £m	Total %
Government securities	425.3	–	425.3	23.4	381.7	–	381.7	22.9
Government agencies/guaranteed bonds	20.9	–	20.9	1.1	0.7	–	0.7	0.0
Asset-backed securities	0.3	–	0.3	–	10.0	–	10.0	0.6
Mortgage-backed securities – Prime	13.1	–	13.1	0.7	17.9	–	17.9	1.1
Corporate bonds	130.9	–	130.9	7.2	66.2	–	66.2	4.0
Pooled vehicles	345.8	255.9	601.7	33.0	434.0	286.3	720.3	43.2
Total bonds	936.3	255.9	1,192.2	65.4	910.5	286.3	1,196.8	71.8
Global equities	6.4	270.7	277.1	15.2	5.8	236.7	242.5	14.6
Property funds	–	144.5	144.5	8.0	–	119.1	119.1	7.1
Other liquid investments	176.5	31.7	208.2	11.4	97.9	9.8	107.7	6.5
Total	1,119.2	702.8	1,822.0	100.0	1,014.2	651.9	1,666.1	100.0

Pooled vehicles held are represented by 34.4% government/agency bonds (2015: 34.5%), 27.6% corporate bonds (2015: 27.9%), 9.5% mortgage backed and asset backed securities (2015: 9.4%), 2.3% equities (2015: 0.2%) and 26.2% other liquid investments (2015: 28.0%).

g) Market risk

Market risk concerns the risks associated with valuation, interest rates, liquidity and counterparty credit. Foreign exchange risk is described in note 7.

Valuation risk

The Syndicate's earnings are directly affected by changes in the valuations of the investments held in the portfolios. These valuations vary according to the movements in the underlying markets. The Syndicate's assets are marked to market at bid price. Prices are supplied by the custodians, whose pricing processes are covered by their published annual audits. In accordance with their pricing policies, prices are sourced from market recognised pricing vendor sources. These pricing sources use closing trades, or where more appropriate in illiquid markets, pricing models. Property funds are based on the most recent price available, which in some instances may be a quarter in arrears. Where a property transaction has taken place the transaction price is used if it is the most recent price available.

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

As an additional level of governance over pricing, the managing agent validates the prices provided by pricing vendor sources against information obtained from Bloomberg where available. A review of stale prices was also conducted at 31 December 2016, though the impact of stale prices on the Syndicate's investment valuation is considered immaterial. Further details of the fair value measurement of financial assets and financial liabilities are included in note 8(e).

The valuation of investments is sensitive to equity risk. The impact on profit before tax of a 5% improvement/deterioration in the total market value of shares and other variable yield securities would be a £9.3 million gain/loss (2015: £11.2 million gain/loss) when applying a consistent methodology to the previous year. After reviewing the Lloyd's specific guidance on sensitivity analysis, a new methodology was developed shocking equity uncorrelated to other asset types, resulting in a £5.2 million gain/ loss.

Interest rate risk

Investors' expectations for interest rates will impact bond yields. The value of the Syndicate's bond holdings is therefore subject to fluctuation as bond yields rise and fall. If the yield falls the capital value will rise, and vice versa. The sensitivity of the price of a bond is indicated by its duration. The greater the duration of a security the greater its price volatility. Typically the longer the maturity of a bond the greater its duration.

Notes to the financial statements *continued*
For the year ended 31 December 2016

8. Financial assets and liabilities *continued*

The maturity bands of the Syndicate's bond holdings as at 31 December 2016 are shown below.

	31 December 2016	31 December 2015
	Underwriting assets £m	Underwriting assets £m
Less than 1 year	221.9	137.0
1-2 years	315.0	283.1
2-3 years	24.3	13.2
3-4 years	4.5	12.1
4-5 years	6.9	7.3
Over 5 years	17.9	23.8
	590.5	476.5

The duration of underwriting assets is set with reference to the duration of the underlying liabilities. It should be noted that the liabilities are not currently discounted and therefore their value is not impacted by interest rate movements. Cash is raised, or the duration of the portfolio reduced, if it is believed that yields may rise and therefore capital values will fall.

The average durations of the bond and cash portfolios for the underwriting assets and associated insurance liabilities as at 31 December 2016 were as follows:

Underwriting assets/liabilities	31 December 2016		31 December 2015	
	Assets Years	Liabilities Years	Assets Years	Liabilities Years
Sterling	0.6	3.5	1.2	3.8
US dollar	–	3.8	0.2	3.3
Euro	(0.7)	4.9	0.1	4.3
Canadian dollar	0.5	4.7	0.8	4.0

The asset durations above are calculated by the custodian and are checked against those reported by the fund managers. Liabilities durations are calculated by the MS Amlin Group Actuarial team.

An indication of the potential sensitivity of the value of the bond and cash funds to changes in yield is shown below.

Shift in yield (basis points)	U/wtg Sterling%	U/wtg US\$%	U/wtg CAN\$%	U/wtg Euro%	Capital Sterling%
100	(0.6)	(0.2)	(0.4)	(0.3)	(0.6)
75	(0.5)	(0.1)	(0.3)	(0.2)	(0.5)
50	(0.3)	(0.1)	(0.2)	(0.2)	(0.3)
25	(0.2)	–	(0.1)	(0.1)	(0.2)
-25	0.2	–	0.1	0.1	0.2
-50	0.3	0.1	0.2	0.2	0.3
-75	0.5	0.1	0.3	0.2	0.5
-100	0.6	0.2	0.4	0.3	0.6

Liquidity risk

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

Notes to the financial statements *continued*
For the year ended 31 December 2016

8. Financial assets and liabilities *continued*

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

31 December 2016	Contractual cash flows (undiscounted)					Carrying amount £m
	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	
Financial assets						
Debt and other fixed income securities	–	466.2	69.6	20.5	19.9	588.9
Shares and other variable yield securities	281.6	–	–	–	–	281.6
Participation in investment pools	201.3	–	–	–	–	201.3
Holdings in collective investment schemes	750.5	–	–	–	–	750.5
Other investments	1.2	–	2.1	–	–	3.3
Total financial assets	1,234.6	466.2	71.7	20.5	19.9	1,825.6
Financial liabilities						
Derivative financial instruments (net)	–	(8.4)	–	–	–	(8.4)
Total financial liabilities	–	(8.4)	–	–	–	(8.4)
Net financial assets	1,234.6	457.8	71.7	20.5	19.9	1,817.2

Insurance liabilities	Expected cash flows (undiscounted)					Carrying amount £m
	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	
Outstanding claims	–	454.1	890.8	341.8	381.3	2,068.0
Less reinsurers' share of outstanding claims	–	(109.5)	(240.2)	(49.2)	(87.2)	(486.1)
Creditors	–	429.2	33.8	0.5	23.2	486.7
Total	–	773.8	684.4	293.1	317.3	2,068.6
Difference in contractual cash flows	1,234.6	(316.0)	(612.7)	(272.6)	(297.4)	(251.4)

31 December 2015	Contractual cash flows (undiscounted)					Carrying amount £m
	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	
Financial assets						
Debt and other fixed income securities	–	389.9	129.6	13.6	23.1	475.4
Shares and other variable yield securities	367.1	0.4	–	–	–	367.5
Participation in investment pools	106.3	–	–	–	–	106.3
Holdings in collective investment schemes	727.8	–	–	–	–	727.8
Other investments	2.9	–	–	–	–	2.9
Total financial assets	1,204.1	390.3	129.6	13.6	23.1	1,679.9
Financial liabilities						
Derivative financial instruments	–	(6.8)	–	–	–	(6.8)
Total financial liabilities	–	(6.8)	–	–	–	(6.8)
Net financial assets	1,204.1	383.5	129.6	13.6	23.1	1,673.1

Insurance liabilities	Expected cash flows (undiscounted)					Carrying amount £m
	No stated maturity £m	0-1 yr £m	1-3 yrs £m	3-5 yrs £m	>5 yrs £m	
Outstanding claims	–	607.6	539.0	227.0	227.4	1,601.0
Less reinsurers' share of outstanding claims	–	(149.6)	(151.7)	(66.1)	(55.5)	(422.9)
Creditors	–	300.4	66.6	0.2	11.8	379.0
Total	–	758.4	453.9	161.1	183.7	1,557.1
Difference in contractual cash flows	1,204.1	(374.9)	(324.3)	(147.5)	(160.6)	116.0

Notes to the financial statements *continued*
For the year ended 31 December 2016

8. Financial assets and liabilities continued

Liquidity in the event of a major disaster is tested regularly using internal cash flow forecasts and realistic disaster scenarios. In addition, the policyholders' funds investment guidelines require at least 25% of the funds to be held in government bonds and/or cash equivalents, which are highly liquid. If a major insurance event occurs the investment strategy is reviewed to ensure that sufficient liquidity is also available in the corporate funds.

The current and non-current portions of the other non-derivative financial liabilities is available in notes 8(d) and 9(f).

Credit risk

Credit risk is the risk that the Syndicate becomes exposed to loss if a specific counterparty fails to perform its contractual obligations in a timely manner impacting the Syndicate's ability to meet its claims as they fall due. Credit risk can also arise from underlying causes that have an impact upon the creditworthiness of all counterparties of a particular description or geographical location. The Syndicate's credit risk is mitigated by the collateral received from counterparties, details of which are given in note 8(i). The Syndicate is exposed to credit risk in its investment portfolio and with its premium and reinsurance debtors.

31 December 2016	Debt securities		Participation in investment pools		Insurance and reinsurance receivables		Reinsurers' share of outstanding claims	
	£m	%	£m	%	£m	%	£m	%
AAA	397.7	67.5	201.3	100.0	–	–	–	–
AA	60.9	10.3	–	–	5.0	0.4	31.1	6.4
A	62.4	10.6	–	–	105.4	9.2	439.4	90.4
BBB	18.1	3.1	–	–	–	–	–	–
Other	49.8	8.5	–	–	1,038.3	90.4	15.6	3.2
	588.9	100.0	201.3	100.0	1,148.7	100.0	486.1	100.0

31 December 2015	Debt securities		Participation in investment pools		Insurance and reinsurance receivables		Reinsurers' share of outstanding claims	
	£m	%	£m	%	£m	%	£m	%
AAA	397.8	83.7	106.3	100.0	2.0	0.3	2.5	0.6
AA	32.0	6.7	–	–	25.6	3.1	52.0	12.3
A	32.4	6.8	–	–	113.1	13.9	361.6	85.5
BBB	12.0	2.5	–	–	–	–	0.7	0.1
Other	1.2	0.3	–	–	674.6	82.7	6.1	1.5
	475.4	100.0	106.3	100.0	815.3	100.0	422.9	100.0

Insurance and reinsurance

The table above includes premium receivables, representing amounts due from policyholders. The quality of these receivables is not graded, but based on historical experience there is limited default risk relating to these amounts. Credit risk in respect of premium debt is overseen by the Syndicate's Broker Committee and managed through a number of controls that include broker approval, annual financial review and internal rating of brokers and regular monitoring of premium settlement performance.

Also included are reinsurance receivables, which represent the amounts due at 31 December 2016, as well as amounts expected to be recovered on unpaid outstanding claims (including IBNR) in respect of earned risks. These are stated net of provisions for impairment. The credit risk in respect of reinsurance receivables, including reinsurers' share of outstanding claims, is primarily managed by review and approval of reinsurance security by the Reinsurance Security Committee prior to the purchase of the reinsurance contract. Guidelines are set, and monitored, that restrict the purchase of reinsurance security based on the internal ratings for each reinsurer and Standard & Poor's ratings. The Syndicate holds collateral from certain reinsurers including those that are non-rated as security against potential default. The details of reinsurance collaterals held and placed with third party trust funds are provided in note 8(i). Provisions are made against the amounts due from certain reinsurers, depending on the age of the debt and the current rating assigned to the reinsurer. The impact on profit before tax of a 1% variation in the reinsurance assets would be £4.9 million (2015: £5.3 million). The details of overdue reinsurance assets and insurance receivables are provided in notes 9(a) and 9(e).

Investments

As well as actual failure of a counterparty to perform its contractual obligations, the price of corporate bond holdings will be affected by investors' perception of a borrower's credit worthiness. Credit risk within the investment funds is managed through the credit research carried out by the investment managers. The investment guidelines are designed to mitigate credit risk by ensuring diversification of the holdings. For each portfolio there are limits to the exposure to single issuers and to the total amount that can be held in each credit quality rating category, as determined by reference to credit rating agencies. At 31 December 2016, investments amounted to £1,817.2 million (2015: £1,673.1 million). Directly held bonds accounted for 32.4% of the portfolio (2015: 28.4%). The residual of the portfolio was held mostly in collective investment schemes and shares. The credit ratings on debt securities are State Street composite ratings based on Standard & Poor's, Moody's and Fitch.

Notes to the financial statements *continued*
For the year ended 31 December 2016

8. Financial assets and liabilities continued

h) Offsetting financial assets and financial liabilities

The Syndicate's derivative transactions with respect to over-the-counter options and currency forwards are subject to International Swaps and Derivatives Association (ISDA) master netting agreements. Transactions under such agreements meet the criteria for offsetting in the Syndicate's statement of financial position. The Syndicate also receives and pledges collateral in the form of cash in respect of the derivative transactions. The fair value of the Syndicate's options and currency forwards are not offset by such collaterals as they create a right of set-off that is enforceable only following an event of default, insolvency or bankruptcy of the Syndicate or the counterparties.

The Syndicate listed futures are transacted under Global Principal Clearing agreements and are not subject to offsetting in the consolidated statement of financial position. In addition, the Syndicate and its counterparties do not intend to settle on a net basis or to realise the assets and the liabilities simultaneously.

The disclosure provided in the tables below include derivatives that are set off in the Syndicate's statement of financial position.

Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements

	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the statement of financial position £m	Net amounts of financial assets presented in the statement of financial position £m	Related amounts not set off in the statement of financial position		
				Financial instruments £m	Cash collateral received £m	Net Amount £m
31 December 2016						
Derivative instruments held for trading	419.6	(414.0)	5.6	–	–	5.6
Derivative instruments in designated hedge accounting relationships	132.8	(131.7)	1.1	–	(1.6)	(0.5)
	552.4	(545.7)	6.7	–	(1.6)	5.1

	Gross amounts of recognised financial liabilities £m	Gross amounts of recognised financial assets set off in the statement of financial position £m	Net amounts of financial liabilities presented in the statement of financial position £m	Related amounts not set off in the statement of financial position		
				Financial instruments £m	Cash collateral pledged £m	Net Amount £m
31 December 2016						
Derivative instruments held for trading	(421.7)	414.0	(7.7)	–	–	(7.7)
Derivative instruments in designated hedge accounting relationships	(139.1)	131.7	(7.4)	–	7.3	(0.1)
	(560.8)	545.7	(15.1)	–	7.3	(7.8)
Net	(8.4)	-	(8.4)	–	5.7	(2.7)

	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the statement of financial position £m	Net amounts of financial assets presented in the statement of financial position £m	Related amounts not set off in the statement of financial position		
				Financial instruments £m	Cash collateral received £m	Net Amount £m
31 December 2015						
Derivative instruments held for trading	287.8	(287.3)	0.5	–	–	0.5
Derivative instruments in designated hedge accounting relationships	3.2	–	3.2	–	(2.9)	0.3
	291.0	(287.3)	3.7	–	(2.9)	0.8

Notes to the financial statements *continued*
For the year ended 31 December 2016

8. Financial assets and liabilities *continued*

31 December 2015	Gross amounts of recognised financial assets £m	Gross amounts of recognised financial liabilities set off in the statement of financial position £m	Net amounts of financial assets presented in the statement of financial position £m	Related amounts not set off in the statement of financial position		
				Financial instruments £m	Cash collateral received £m	Net Amount £m
Derivative instruments held for trading	(297.3)	287.3	(10.0)	–	–	(10.0)
Derivative instruments in designated hedge accounting relationships	(0.5)	–	(0.5)	–	–	(0.5)
	(297.8)	287.3	(10.5)	–	–	(10.5)
Net	(6.8)	–	(6.8)	–	(2.9)	(9.7)

i) Restricted funds held by the Syndicate

At 31 December 2016, the Syndicate holds restricted funds in the form of trust fund investments, letter of credit (LOC) collaterals, initial margin calls on derivative financial instruments and collateral received from reinsurance counterparties.

Trust funds

The Syndicate holds gross assets of £4,383.6 million (2015: £3,703.9 million), offset by gross liabilities of £3,731.6 million (2015: £2,936.2 million), which are held within individual trust funds. The assets cannot be obtained or used until such time as each Syndicate underwriting year is closed and profits are distributed, or an advance profit release is made. The Funds in Syndicate, as set out on page 11 in the Statement of changes in members' balances as funds deposited by MS Amlin Corporate Member Limited, represent the restricted capital for regulatory purposes. Furthermore, £102.4 million (2015: £34.0 million) of MS Amlin Asia Pacific Fte Ltd's assets are held within trust funds and restricted from use within the working capital of the Group until settlement has been made to the Syndicate.

Letter of Credit (LOC) facilities

At 31 December 2016, the Syndicate recognised £1.2 million (2015: £1.0 million) of cash drawn down from LOC facilities as a liability on the statement of financial position. This has been received from reinsurance counterparties as a guarantee for business written and is included within total funds held by the Syndicate.

Derivative margins and collateral

Derivative instruments traded across the Group give rise to collateral being placed with, or received from, external counterparties. At 31 December 2016, included in other receivables and other payables are £10.2 million (2015: £1.6 million) margins and collaterals pledged and £1.6 million (2015: £2.9 million) margins and collaterals held in relation to listed futures margins and other derivatives respectively.

Reinsurance collateral received

Collateral of £818.3 million (2015: £636.5 million) is held in third party trust funds to guarantee the Syndicate against reinsurance counterparties.

Insurance collateral placed

The Syndicate holds £471.9 million (2015: £395.7 million) of collateral in a US trust fund to meet US regulatory requirements, which are recognised as an asset to the Syndicate.

Notes to the financial statements *continued*
For the year ended 31 December 2016

9. Insurance liabilities and reinsurance assets

a) Net outstanding claims

Outstanding claims	2016			2015		
	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m
At 1 January	1,601.0	(422.9)	1,178.1	1,657.7	(430.8)	1,226.9
Claims incurred during the current year	1,159.1	(305.8)	853.3	753.8	(177.1)	576.7
Movements arising from prior year claims	(69.6)	29.8	(39.8)	(53.5)	15.2	(38.3)
	1,089.5	(276.0)	813.5	700.3	(161.9)	538.4
Claims paid during the year	(831.3)	206.1	(625.2)	(792.2)	185.0	(607.2)
Change in provision for claims	258.2	(69.9)	188.3	(91.9)	23.1	(68.8)
Foreign exchange (gains)/losses	208.8	6.7	215.5	35.2	(15.2)	20.0
At 31 December	2,068.0	(486.1)	1,581.9	1,601.0	(422.9)	1,178.1

Further information on the calculation of outstanding claims and the risks associated with them is provided in notes 9(l) and 9(g) respectively.

Outstanding claims are further analysed between notified outstanding claims and claims incurred but not reported below:

Outstanding claims	2016			2015		
	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m
Notified outstanding claims	1,272.5	(275.2)	997.3	1,094.2	(260.5)	833.7
Claims incurred but not reported	795.5	(210.9)	584.6	506.8	(162.4)	344.4
	2,068.0	(486.1)	1,581.9	1,601.0	(422.9)	1,178.1

The current and non-current portions for outstanding claims are expected to be as follows:

Outstanding claims	2016			2015		
	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m	Insurance liabilities £m	Reinsurer's share £m	Net liabilities £m
Current portion	682.4	(160.4)	522.0	607.6	(149.6)	458.0
Non-current portion	1,385.6	(325.7)	1,059.9	993.4	(273.3)	720.1
	2,068.0	(486.1)	1,581.9	1,601.0	(422.9)	1,178.1

The total reinsurers' share of outstanding claims is set out in the table below:

	2016 £m	2015 £m
Reinsurers' share of outstanding claims	488.6	424.7
Less provision for impairment of receivables from reinsurers	(2.5)	(1.8)
	486.1	422.9

The managing agent assesses the Syndicate's reinsurers' share of outstanding claims for impairment on a quarterly basis by reviewing counterparty payment history and credit grades provided by rating agencies. The credit ratings of the Syndicate's reinsurers' share of outstanding claims are shown in note 8(g).

At 31 December 2016 and 2015 the reinsurers' share of outstanding claims was not overdue. The Syndicate holds collateral of £818.3 million (2015: £636.5 million) in relation to reinsurers' share of outstanding claims. Details are included in note 8(i).

Notes to the financial statements *continued*
For the year ended 31 December 2016

9. Insurance liabilities and reinsurance assets *continued*

b) Claims development

The tables below illustrate the development of the estimates of cumulative claims for the Syndicate on an underwriting year basis, illustrating how amounts booked have developed from one reporting period to the next. All tables are prepared on an undiscounted basis. Non-sterling balances have been converted using 2016 year end exchange rates to aid comparability.

Claims development table gross of reinsurance

	2010 and prior	2011	2012	2013	2014	2015	2016	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of cumulative claims								
At end of underwriting year		544.6	524.7	468.0	527.0	681.1	551.8	
One year later		860.2	851.7	884.0	804.7	1,164.0		
Two years later		836.4	864.9	761.5	862.3			
Three years later		840.5	805.5	804.4				
Four years later		836.0	806.9					
Five years later		822.2						
Cumulative payments		(747.5)	(693.0)	(576.6)	(523.6)	(611.9)	(97.7)	
Estimated balance to pay	306.6	74.7	113.9	227.9	338.7	552.1	454.1	2,068.0

Claims development table net of reinsurance

	2010 and prior	2011	2012	2013	2014	2015	2016	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Estimate of cumulative claims								
At end of underwriting year		339.2	382.0	349.5	395.3	349.6	424.5	
One year later		595.6	633.9	646.3	691.6	722.7		
Two years later		587.2	645.2	649.0	737.6			
Three years later		618.8	622.6	693.0				
Four years later		614.9	653.3					
Five years later		601.1						
Cumulative payments		(530.5)	(548.1)	(486.2)	(490.0)	(298.7)	(79.9)	
Estimated balance to pay	182.9	70.7	105.2	206.9	247.6	424.0	344.6	1,581.9

Total for all underwriting years								2016
								£m
Net reserves recognised								1,581.9
Amounts recovered from reinsurers								486.1
Gross reserves included in balance sheet								2,068.0

c) Net unearned premium

Unearned premiums are further analysed between written and earned premium below:

	2016			2015			Net liabilities £m
	Insurance liabilities £m	Reinsurers' share £m	Net liabilities £m	Insurance liabilities £m	Reinsurers' share £m	Net liabilities £m	
Unearned premium							
At 1 January	946.6	(183.0)	763.6	817.4	(153.5)	663.9	
Change in provision for unearned premium	72.0	(9.3)	62.7	129.9	(20.1)	109.8	
Foreign exchange (gains)/losses	141.3	(25.8)	115.5	(0.7)	(9.4)	(10.1)	
At 31 December	1,159.9	(218.1)	941.8	946.6	(183.0)	763.6	

Notes to the financial statements *continued*
For the year ended 31 December 2016

9. Insurance liabilities and reinsurance assets continued

The current and non-current portions for unearned premium are expected to be as follows:

	2016			2015		
	Insurance liabilities £m	Reinsurers' share £m	Net liabilities £m	Insurance liabilities £m	Reinsurers' share £m	Net liabilities £m
Unearned premium						
Current portion	1,036.9	(195.1)	841.8	848.6	(154.0)	694.6
Non-current portion	123.0	(23.0)	100.0	98.0	(29.0)	69.0
At 31 December	1,159.9	(218.1)	941.8	946.6	(183.0)	763.6

d) Deferred acquisition costs

The reconciliation of opening and closing deferred acquisition costs is as follows:

	Note	2016 £m	2015 £m
At 1 January		236.8	202.6
Change in deferred acquisition costs	3	12.5	34.0
Foreign exchange losses		31.0	0.2
At 31 December		280.3	236.8

The current and non-current portions are expected to be as follows:

	2016 £m	2015 £m
Current portion	250.6	217.5
Non-current portion	29.7	19.3
	280.3	236.8

e) Insurance and reinsurance receivables

	2016 £m	2015 £m
Due from policyholders	358.1	245.7
Due from intermediaries	794.7	581.7
Less provision for impairment of receivables from contract holders and agents	(4.1)	(12.1)
Insurance and reinsurance receivables	1,148.7	815.3

The current and non-current portions are expected to be as follows:

	2016 £m	2015 £m
Current portion	1,148.7	815.3
Non-current portion	–	–
	1,148.7	815.3

Receivables arising from reinsurance contracts are comprised principally of amounts recoverable from reinsurers in respect of paid claims and premium receivables on inward reinsurance business, including reinstatement premium.

The managing agent assesses the Syndicate's insurance and reinsurance receivables for impairment on a quarterly basis by reviewing counterparty payment history and for circumstances which may give rise to a dispute or default. At 31 December 2016, insurance and reinsurance receivables at a nominal value of £45.2 million (2015: £20.2 million) were greater than three months overdue and provided for on the basis of credit rating to the value of £nil (2015: £nil).

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date.

Notes to the financial statements *continued*
For the year ended 31 December 2016

9. Insurance liabilities and reinsurance assets *continued*

The ageing analysis of insurance and reinsurance receivables overdue, before impairment provision, is as follows:

	2016 £m	2015 £m
Not overdue or less than 3 months	1,107.7	807.2
3 to 6 months	6.3	3.8
6 to 9 months	3.4	1.4
Greater than 9 months	35.5	15.0
	1,152.8	827.4

Movements on the Syndicate's provision for impairment of receivables from contract holders and agents are as follows:

	2016 £m	2015 £m
At 1 January	12.1	11.2
(Decrease)/ Increase in the provision	(8.0)	0.9
At 31 December	4.1	12.1

f) Insurance and reinsurance payables

	2016 £m	2015 £m
Creditors arising out of direct insurance operations	69.5	51.9
Creditors arising out of reinsurance operations	289.9	197.7
Insurance and reinsurance payables	359.4	249.6

Of the insurance and reinsurance payables, 90% of the balances are considered to be current and 10% non-current.

The carrying amounts disclosed above are reasonably approximate to the fair value at the reporting date. Insurance payables are comprised principally of premium payable for reinsurance, including reinstatement premium.

g) Underwriting risk

The Syndicate accepts underwriting risk in a range of classes of business through three distinct underwriting divisions. The bias of the portfolio is towards short-tail property and accident risk but liability coverage is also underwritten.

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

A number of controls are deployed to limit the amount of insurance exposure underwritten. Each year a business plan is prepared and agreed which is used to monitor the amount of premium income, and exposure, to be written in total and for each class of business. Progress against this plan is monitored during the year. These premiums and exposures can be exceeded in exceptional circumstances but only with the approval of senior management. Apart from the UK, and some of the international, comprehensive motor liability portfolio, which has unlimited liability, all policies have a per loss limit which caps the size of any individual claims. For larger sum insured risks reinsurance coverage may be purchased. The managing agent uses line guides that determine the maximum liability per policy that can be written for each class (on a gross or net of facultative reinsurance basis) by each underwriter. The Syndicate is also exposed to catastrophe losses which may impact many risks in a single event. Reinsurance is purchased to limit the impact of loss aggregation from such events. These reinsurance arrangements are described in section 9(j) below.

Insurance liabilities are written through individual risk acceptances, reinsurance treaties or through facilities whereby the Syndicate is bound by other underwriting entities. Facility arrangements delegate underwriting authority to other underwriters, or to agents acting as coverholders, that use their judgement to write risks on the Syndicate's behalf under clear authority levels.

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

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

9. Insurance liabilities and reinsurance assets *continued*

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

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

h) Regulatory risk

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

i) Operational risk

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

j) Reinsurance and other risk mitigation arrangements

The Syndicate purchases proportional reinsurance to supplement line size and to reduce exposure on individual risks. A part of the premiums ceded under such facilities is placed with MS Amlin AG and Amlin Insurance SE under variable quota share agreements. Additionally, a 17.5% whole account quota share arrangement of the Syndicate is written by MS Amlin AG (Bermuda branch). The Syndicate also purchases a number of excess of loss reinsurances to protect itself from severe frequency or size of losses. The structure of the programme and type of protection bought will vary from year to year depending on the availability and price of cover.

k) Realistic Disaster Scenario (RDS) analysis

The Syndicate has a defined event risk tolerance, which determines the maximum net loss that the Syndicate intends to limit its exposure to, from major catastrophe event scenarios. At 31 December 2016 the maximum net loss was £158.0 million for the Syndicate (2015: £158.0 million).

These maximum losses are expected only to be incurred in extreme events – with an estimated occurrence probability for the elemental losses of approximately 1 in 50 years for each relevant natural peril region. The Syndicate also adopts risk tolerance maximum net limits for a number of other non-elemental scenarios including aviation collision, North Sea rig loss, terrorism, cyber and casualty events.

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

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

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

9. Insurance liabilities and reinsurance assets *continued*

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

l) Claims reserving and IBNR

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

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

Process and methodology

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

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

IBNR

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

Areas of uncertainty

The reserves established can be more or less than adequate to meet eventual claims arising. The level of uncertainty varies significantly from class to class but can arise from inadequate case reserves for known large losses and catastrophes or from inadequate provision for IBNR claims. The impact on profit of a 1% improvement/deterioration in the total net claims reserves would be £15.4 million gain/loss (2015: £11.8 million).

Large loss case reserves are determined through careful analysis of the individual claim, often with the advice of lawyers. Claims arising from events such as the 11 September 2001 terrorist attacks in the US are examples of cases where there continues to be some uncertainty over the eventual value of claims.

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

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

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

Notes to the financial statements *continued*
For the year ended 31 December 2016

9. Insurance liabilities and reinsurance assets continued

The allocation of IBNR to the reinsurance programme is an uncertain exercise as there is limited knowledge of the size or number of future claims advices. The assumption over future reinsurance recoveries may be incorrect and unforeseen disputes could arise which would reduce recoveries made.

The estimated premium income in respect of facility contracts, for example, binding authorities and lineslips, are deemed to be written in full at the inception of the contract but actual premium may exceed or fail to meet initial estimates. The magnitude of claims arising from such facilities may differ from estimates as a result of differences between estimated and actual premium.

10. Overseas deposits

Overseas deposits represent balances held with overseas regulators to permit underwriting in certain territories. These assets are managed by Lloyd's on a pooled basis and are predominantly invested in debt and other fixed income securities.

11. Capital

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.

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 2001 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's 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 a SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the statement of financial position on page 9, represent resources available to meet members' and Lloyd's capital requirements. The Syndicate has only one member, MS Amlin Corporate Member Limited, and all its capital for the 2016 and prior years of account is provided as FIS.

From 1 January 2017, the underwriting business of Syndicate 3210 was renewed into Syndicate 2001 and Syndicate 3210's 2016 and prior years of account were placed in run-off. Syndicate 3210 is supported by MSI Corporate Capital Limited (MSICC) and as a result of the run-off, on-going underwriting has been consolidated into one member, MS Amlin Corporate Member Limited (MS ACM) (the continuing Corporate Member), from 1 January 2017. In December 2016, Funds at Lloyd's (FAL) were made inter-available between MSICC and MS ACM in order to allow the existing capital arrangements to continue supporting the open years of account for Syndicate 3210 in run-off and the 2017 year of account onwards for Syndicate 2001.

12. Related parties

The smallest group of undertakings of which the managing agent is a member, and for which group financial statements are prepared, is MS Amlin plc, a company incorporated in the UK. The largest group of undertakings of which the managing agent is a member, and for which group financial statements are prepared, is headed by MS&AD Insurance Group Holdings, Inc. a company incorporated in Japan, which is the ultimate parent undertaking. A copy of both consolidated accounts is available from the registered office of MS Amlin plc at The Leadenhall Building, 122 Leadenhall Street, London, EC3V 4AB.

Notes to the financial statements *continued*
For the year ended 31 December 2016

12. Related parties *continued*

On 1 February 2016, all of the available shares of MS Amlin plc were transferred to Mitsui Sumitomo Insurance Company Limited, a wholly owned subsidiary of MS&AD Insurance Group Holdings, Inc. Thus from this date, the ultimate parent of the managing agent is MS&AD Insurance Group Holdings, Inc. The ultimate parent company address is Tokyo Sumitomo Twin Building (West Tower), 27-2, Shinkawa 2-chome, Chuo-ku, Tokyo, Japan.

MS Amlin Corporate Member Limited

From October 2007, MS Amlin Corporate Member Limited has satisfied Lloyd's capital requirements by holding investments within the Syndicate as Funds in Syndicate (FIS). During 2016, £26.4 million was deposited by MS Amlin Corporate Member Limited as its capital requirements changed (2015: £52.1 million). The investments realised a profit of £28.6 million for the period to 31 December 2016 (2015: £19.3 million). The balance of £710.6 million (2015: £655.6 million) is included within capital and reserves on the Syndicate balance sheet and is owed exclusively to MS Amlin Corporate Member Limited.

Distributions of profit to the member's personal reserve funds of £30.3 million (2015: £70.3 million) were made during the year.

MS Amlin Underwriting Limited

Managing agent's fees of £34.9 million (2015: £33.6 million) were charged to the Syndicate during the year. At 31 December 2016 the amount due to MS Amlin Underwriting Limited was £18.7 million (2015: £3.2 million).

There have been no transactions entered into or carried out during the year by the managing agent on behalf of the Syndicate in which it or any of its executives had directly or indirectly a material interest.

MS Amlin Corporate Services Limited

MS Amlin Corporate Services Limited was paid £157.9 million during the year (2015: £146.1 million) for expenses incurred directly and indirectly on behalf of the Syndicate. This included a management charge of £98.1 million (2015: £94.9 million) for central costs of the MS Amlin Group that are attributable to the Syndicate. These expenses are shown in administrative expenses net of the allocation to claims handling costs. There is no profit element in the amounts paid to MS Amlin Corporate Services Limited. At 31 December 2016 the amount due from MS Amlin Corporate Services Limited was £12.4 million (2015: £12.5 million).

MS Amlin Bermuda

Syndicate 2001 placed five (2015: six) proportional treaty reinsurance contracts, eleven (2015: thirty five) excess of loss reinsurance contracts and three (2015: three) facultative contracts with MS Amlin Bermuda (AB), a branch of MS Amlin AG, for a variety of classes of business. The Syndicate also placed a whole account quota share reinsurance contract of 17.5% with AB for the 2016 year of account (2015: 17.5%).

During 2016, the Syndicate was reinsured by AB as a following market, through five (2015: eleven) programmes protecting a variety of classes of business. With effect from 1 January 2012 there is a 36 month Weighted Industry Loss reinsurance agreement between Syndicate 2001 and MS Amlin Bermuda providing cover for US Hurricane, US Earthquake and European Windstorm, a contract was issued for 36 months from 1 January 2015. With effect from 1 July 2013 there is a 48 month Weighted Industry Loss reinsurance agreement between Syndicate 2001 and MS Amlin Bermuda providing cover for US and Canadian Earthquake.

All reinsurance contracts are agreed on an arm's length basis with terms that are consistent with those negotiated with third parties. The total premiums (less commissions retained) payable to AB in respect of 2016 were £209.9 million (2015: £234.4 million), of which £197.2 million (2015: £138.8 million) were outstanding as at 31 December 2016.

Amlin Insurance SE

2014 was the last year the Netherlands branch of Amlin Insurance SE (AISE) renewed its involvement in the Syndicate's variable quota share arrangements which included all classes written by the Syndicate's Marine business unit. AISE's participation on the hull, cargo and builders risks prior submit facilities also ceased at the end of 2015. Total premiums (less commissions retained) payable to AISE in respect of runoff in 2016 were £1.5 million (2015: £0.9 million) of which £0.9 million (2015: £2.3 million) were outstanding at 31 December 2016. Premiums receivable from AISE in respect of these quota share arrangements of 2016 were £0.5 million (2015: £1.0 million) of which £nil (2015: £nil) were outstanding as at 31 December 2016.

AISE ceded a 75% (2015: 75%) quota share of its UK insurance contracts to the Syndicate. Total premiums receivable from AISE in respect of 2016 were £94k (2015: £1.0 million) of which £0.2 million (2015: £0.4 million) were outstanding as at 31 December 2016.

Syndicate 3210

During 2016 MS Amlin plc was acquired by Mitsui Sumitomo Insurance Company, Limited. The Syndicate provides reinsurance to Syndicate 3210. The reinsurance written premiums in relation to Syndicate 2001 by Syndicate 3210 were £0.9 million, of which £0.4 million was outstanding at 31 December 2016. The outstanding claims reserves at 31 December were £0.3 million.

Leadenhall Capital Partners LLP

MS Amlin Group has a financial interest of 75.0% in Leadenhall Capital Partners LLP (LCP). Syndicate 2001 has written a limited number of excess of loss reinsurance policies in conjunction with LCP. These policies are ceded 100% to Horseshoe Re, AB (who also write policies with LCP) and the Syndicate receive an overriding commission (normally 4.5% of gross premium) on policies written. During 2016, the Syndicate wrote £43.6 million (2015: £37.8 million) of gross premium and received £2.0 million (2015: £1.7 million) of commission through this arrangement. As at 31 December 2016, the Syndicate had £1.6 million (2015: £5.7 million) receivable from Horseshoe Re.

Notes to the financial statements *continued*
For the year ended 31 December 2016

12. Related parties *continued*

Manchester Underwriting Management Limited

The Syndicate had a financial interest of 30.0% in Manchester Underwriting Management Limited (MUM). The company acts as a distribution vehicle for smaller UK Professional Indemnity risks to the Property & Casualty business unit. The financial interest in MUM was disposed of on 02 December 2016, resulting in a loss of £0.2 million to the Syndicate.

Miles Smith Insurance Group

The Syndicate also has a financial interest of 25.8% in Miles Smith Insurance Group. The company is a London Market wholesale broker who transacts high volumes of Fleet and other Commercial business with the Property and Casualty UK business unit of the Syndicate. Miles Smith owed the Syndicate £4.3 million at 31 December 2016 (2015: £2.9 million).

Eagle Underwriting Limited

Syndicate 2001 acquired a financial interest of 20% in Eagle Underwriting Limited on 15 September 2016 for CAD\$ 0.8 million. The Syndicate has the option to increase the stake to 49% by the fifth anniversary of the transaction.

Service companies and brokers

MS Amlin Underwriting Limited has a subsidiary (MS Amlin Reinsurance Managers Inc) which introduces business to, or provide specialist services on behalf of, the Syndicate. Further business is introduced through other group entities owned, directly or indirectly, by MS Amlin plc.

The service companies and brokers and the income received and expenses incurred by the Syndicate are summarised below.

Service company	Insurance class of business introduced	2016 Gross written premiums £m	2015 Gross written premiums £m	2016 Commission/ brokerage paid £m	2015 Commission/ brokerage paid £m	2016 Profit commission paid £m	2015 Profit commission paid £m	2016 Management charge paid £m	2015 Management charge paid/ £m
MS Amlin Underwriting Services Limited	Dinghy, yacht, super yacht, livestock and equine insurance	38.3	32.5	4.6	4.4	–	0.4	5.9	5.7
Amlin Singapore Pte Limited	General insurance and reinsurance	54.1	40.9	5.5	–	–	–	5.9	3.9
Amlin Labuan Limited	General insurance and reinsurance	2.7	2.4	0.3	–	–	–	0.1	0.1
Lead Yacht Underwriters Limited	Super-yacht insurance	–	1.4	–	0.1	–	0.1	–	–
AUA Insolvency Risk Services Limited	Insolvency practitioners' insurance	9.5	8.7	1.1	1.8	–	–	1.3	(0.1)
Amlin Reinsurance Managers Inc	Casualty and professional liability reinsurance	54.6	41.4	16.4	3.8	–	–	4.8	4.1
RaetsMarine	Marine liability protection and indemnity insurance	53.0	14.2	8.6	2.4	–	–	4.5	4.0
Amlin Dubai Limited	Marine, War/Terrorism, Yacht, Cargo	4.7	2.2	1.0	0.5	–	–	1.8	1.5
		216.9	143.7	37.5	13.0	–	0.5	24.3	19.2

The entire share capital of these companies is held by MS Amlin plc and its subsidiaries.

No fees are paid by these companies to any of the directors of the managing agent.

Transactions with directors

Certain directors of the managing agent are also directors of other Group companies. In all cases transactions between the Syndicate and with the Amlin Group are carried out on normal arm's length commercial terms without any involvement by the director concerned on either side of the transaction.

13. Events after the reporting period

There have been no significant events after the reporting date.

Advisors

Independent syndicate auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Corporate solicitors

Linklaters LLP
1 Silk Street
London EC2Y 8HQ

Investment managers

Sub funds under management
Bluebay Asset Management LLP
Goldman Sachs Asset Management International
Insight Investment Management (Global) Ltd
PIMCO Global Advisers (Ireland) Ltd
Wellington Management International Ltd

Umbrella structure

BlueBay Funds
Goldman Sachs Funds SICAV
BNY Mellon Global Fund, plc
PIMCO Funds: Global Investors Series plc
Wellington Management Portfolios (Luxembourg)

Bankers

Citibank
Lloyds TSB Bank plc
Royal Bank of Canada
U.S. Bank

**SYNDICATE ANNUAL ACCOUNTS AND LLOYD'S ANNUAL RETURN
31 DECEMBER 2016**

Syndicate No: 2001

Statement by the managing agent to the Council of Lloyd's

In accordance with Market Bulletin Y5043 dated 7 December 2016, "2016 Syndicate Report and Accounts", we confirm that the disclosures in column C of QMA001 and QMA002 of the Annual Return as submitted to Lloyd's on 6 March 2017 agree with those for the 2016 profit and loss account, balance sheet, and related notes of the syndicate annual accounts as at 31 December 2016.

We also confirm the syndicate annual accounts either have positive disclosure or have no positive disclosure as follows:

	Positive disclosure	No positive disclosure
Off balance sheet arrangements – Lloyds Regulations 2008, Schedule 1, para 7		✓
Related party transactions that have not been concluded under normal market conditions – Reporting Regulations 2008, Schedule 3, para 90		✓

Signed *R. Heppell* Finance Director

Name R. HEPPELL (BLOCK CAPITALS)

Signed *T. Clementi* Director

Name T. C. CLEMENTI (BLOCK CAPITALS)

On behalf of MS AMLIN UNDERWRITING LIMITED Managing Agent

Date 21 MARCH 2017.

Report of the independent auditors to the Council of Lloyd's

We have reviewed the statement dated 21 March 2017 by the managing agent of syndicate 2001.

This report is made solely to the addressees in accordance with Market Bulletin ref: Y5043 dated 7 December 2016 entitled "2016 syndicate report and accounts". Our work has been undertaken so that we might state to the addressees of this report those matters which we are required to state in this report by the Instructions and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the addressees of this report, for our work, for this report, or for the opinions we have formed.

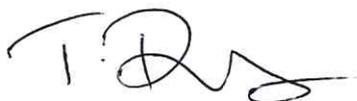
Our opinion dated 21 March 2017 on the syndicate annual accounts was not qualified.

There are no additional matters referred to in that opinion which have not been referred to in our opinion dated 6 March 2017 on the 2016 Calendar year information in the Annual Return.

OPINION

In our opinion:

- a) the statement dated 21 March 2017 has been properly prepared by the managing agent; and
- b) it was not unreasonable for the managing agent giving the statement to have made the statements therein.



Timothy Butchart
for and on behalf of KPMG LLP, Registered Auditor
Chartered Accountants
London
21 March 2017

