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AmTrust

Syndicate 1861

Annual Report and Accounts
For the year ended 31 December 2016

AmTrust Syndicates Limited
An AmTrust Financial Company

Contents

Directors and Advisers

Managing Agent
AmTrust Syndicates Limited

Registered office
47 Mark Lane
London EC3R 7QQ

Managing Agent's registration No. 4434499

FCA firm registration No. 226696

Lloyd's registration No. 2073D

Syndicate: 1861

Directors

B Jansli	Non-Executive Chairman	Appointed 08/11/2016
N C T Pawson	Non-Executive Director	
J P Fox	Non-Executive Director	Appointed 22/11/2016
B Jackson	Non-Executive Director	Appointed 08/11/2016
J E Cadle	Non-Executive Deputy Chairman	Appointed 08/12/2016
M G Caviet	Non-Executive Director	Appointed 08/12/2016
P Dewey		Appointed 08/11/2016
S J Helson		Appointed 22/01/2016
J M Hamilton		
B Gilman		
G Sweatman		Appointed 22/11/2016; Resigned 20/02/2017
M A Sibthorpe		Appointed 08/12/2016
D J L Barrett		Appointed 29/11/2016
J M P Taylor	Non-Executive Chairman	Resigned 07/11/2016
J G M Verhagen	Non-Executive Director	Resigned 12/07/2016
A P Hulse	Non-Executive Director	Resigned 07/11/2016
A C Barker		Resigned 31/10/2016
G M Van Loon		Resigned 07/11/2016
L J Cross		Resigned 07/11/2016
A S W Hall		Resigned 07/11/2016
S Lacy		Appointed 11/08/2016; Resigned 07/11/2016

Company secretary

A S W Hall	Resigned 22/01/2016
G Luckett	Appointed 22/01/2016; Resigned 07/11/2016
D J L Barrett	Appointed 29/11/2016

Active Underwriter
C Jarvis

Bankers
Lloyds Bank plc
City Office, Bailey Drive
Gillingham Business Park
Kent ME8 0LS

Investment Managers
Amundi Asset Management
41 Lothbury
London EC2R 7HF

Statutory Auditor
Deloitte LLP
2 New Street Square
London EC4A 3BZ

Report of the Directors of the Managing Agent

The Directors of the Managing Agent present their report, which incorporates the strategic review, for the year ended 31 December 2016. The Syndicate's Managing Agent is a company registered in England and Wales.

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

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

Principal activity

The Syndicate's principal activity continued to be the transaction of general insurance and reinsurance business. The Syndicate capacity for the 2016 year of account was £205m. The capacity has increased to £245m for the 2017 year of account.

AmTrust

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

AmTrust at Lloyd's

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

Syndicate 1861 is managed by AmTrust Syndicates Limited (ASL), which was renamed following the acquisition of ANV Holdings BV (ANV), ASL's former ultimate parent company, by AmTrust Lloyd's Holdings (UK) Ltd, an indirect, wholly owned subsidiary of AFSI, in November 2016, having previously traded as ANV Syndicates Limited.

During 2016 ASL managed Lloyd's Syndicates 1861, 5820 and 779, wrote a globally diversified risk portfolio with twelve diverse lines of business, selected based on the platform's strategic position, the market opportunity within Lloyd's and the portfolio diversification and capital benefits these classes offered.

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

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

2016 Overview
Syndicate 1861 has delivered 16.7% growth in top-line premium in 2016, 4.5% excluding the impact of foreign exchange rate changes between its US dollar functional currency and its Sterling presentational currency, which is a strong performance in the context of the current market conditions across the traditional specialty lines and the continued disciplined underwriting approach adopted across all classes.

The Syndicate generated a loss for the financial year of £4.0m (2015: profit of £11.4m), with the combined ratio for the year at 103.8% (2015: 94.6%). While the Syndicate has avoided the market catastrophe losses in the year, an increase in large risk loss activity has resulted in an increase in the net claims ratio to 52.4% (2015: 43.7%). As the Syndicate continues to build out capability and achieve critical scale on younger lines, the rebalanced portfolio mix has shifted the acquisition costs ratio to 43.4% (2015: 39.4%). The expense ratio for the business has reduced to 8.0% (2015:11.5%) as the Syndicate achieves greater scale, which has been achieved against a backdrop of increasing regulatory costs and continued investment in the Lloyd's platform.

1861 Underwriting Review
Portfolio and cycle management have been a key focus for the 1861 underwriting team in 2016 as insurers' margins continued to be narrowed by reduced rating adequacy coupled with clients seeking broader coverage. Additionally, broker facilities and various other risk packaging initiatives continue to hamper the more traditional underwriting methods. The resultant reduction in subscription business has required that the Syndicate differentiates on product, service, or the capability to lead business, in order to maintain market share in many lines.

The Syndicate has had success in delivering this strategy, achieving premium growth year on year while continuing to exercise underwriting discipline across all lines. The broader product offering as a result of the portfolio optimisation and re-underwriting work undertaken over the last 5 years has insulated the Syndicate against declining income levels in some of the more traditional lines, such as Property and Energy. This has been offset by growth on less mature lines such as US Non-Marine General Liability and Contingency, and the new US Professional Indemnity and Aviation Hull Deductible products launched in 2016.

In 2016 the Syndicate was unaffected by catastrophe claims, however there has been an increase in large claims across multiple lines in the year most notably on the Energy, Marine and Reinsurance classes, from the Jubilee (Tullow Ghana), Space X, Vermillion (Samir oil refinery) and Pemex claims. Additionally, there has been reserve strengthening on Warranty & Indemnity losses reported in previous years in the Professional Lines account on the 2014 & Prior years of account. The Syndicate's reinsurance programme has materially mitigated the impact of these, and other large losses, on the 2016 result.

Significant Events
ANV Syndicates Limited had been rated red for Solvency II Pillar 2 compliance by Lloyd's in 2015, in respect of Governance and Risk Management. In April 2016, Lloyd's confirmed that the issues preventing a Solvency II green rating had been addressed.

At the beginning of 2016 ASL was a subsidiary of ANV Holdings B.V. (ANV), the parent of the ANV Group which was a privately owned and held Dutch registered holding company and its lead investor was Ontario Teachers' Pension Plan (OTPP). ANV held an 80% majority shareholding in ASL's immediate parent, ANV Syndicate Management Limited, with the remaining 20% held by Jubilee Group Holdings Ltd (JGHL), a subsidiary of the Ryan Specialty Group. ANV purchased JGHL's minority shareholding in July 2016, resulting in ASL being 100% owned by ANV. Johanna Verhagen, a non-executive director and a representative of Ryan Specialty Group, resigned in July 2016 following the transaction.

In November 2016, AmTrust completed the acquisition of ANV and its affiliates from OTPP, at which point ASL was renamed AmTrust Syndicates Limited, having previously traded as ANV Syndicates Limited. Following the acquisition, an exercise was completed to align the Board structure with AmTrust's existing Lloyd's Managing Agency, AmTrust at Lloyd's Limited. The changes to the Board composition are detailed within the Directors and Advisers Report.

The 2014 year of account of the Syndicate was successfully reinsured to close into the 2015 underwriting year of account.

Key Performance Indicators

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

	2016	2015
	£m	£m
Written Premiums		
Gross premiums written	259.1	222.0
Net premiums written[1]	200.7	167.7
Earned Premiums		
Earned premiums, net of reinsurance[2]	195.3	156.7
(Loss) / Profit for the financial year (before OCI[3])	(4.0)	11.4
Total comprehensive income	(6.1)	11.3
Cash, investments and overseas deposits	188.6	138.2
Members' Balances	(17.5)	(6.9)
Key Ratios	%	%
Claims ratio (net)	52.4	43.7
Acquisition ratio	43.4	39.4
Expense ratio	8.0	11.5
Combined ratio[4]	103.8	94.6

Notes:
[1] Net premiums written is stated gross of brokerage and commission, and net of associated reinsurance costs.
[2] Earned premiums, net of reinsurance are stated gross of brokerage and commission, and net of associated reinsurance costs.
[3] OCI (other comprehensive income) represents foreign exchange gains and losses on translation from the Syndicate's US dollar functional currency to its Sterling presentational currency.
4 The combined ratio is the ratio of net claims incurred, acquisition costs and net operating expenses to net premiums earned.

Gross Premiums Written

Gross written premiums have increased by £37.1m (16.7%) from the previous year to £259.1m for the 2016 calendar year. This top-line growth is reflective of both an increase in premium across a number of classes following the £20.0m increase in stamp capacity and the strengthening of the US Dollar against Sterling. In converted US Dollar terms, the Syndicate's functional currency, gross premiums written increased by 4.5%. The largest growth was achieved on the Specialty RI and Liability classes whilst the most significant reductions were seen on Energy, Marine & Cargo and Accident & Health following the repositioning of the portfolio.

Net Premiums Written

Net written premiums have increased by £33.0m (19.7%) from 2015 following the growth in the top-line and a reduction in the ceded ratio from 24.4% to 22.6%. In converted US Dollar terms net premiums written increased by 6.7% from the 2015 calendar year. The 2016 reinsurance programme was broadly in line with 2015 with savings achieved on the Excess of Loss renewals offset by reinstatement premiums following the large loss activity during the period.

Earned Premiums, Net of Reinsurance

Net earned premiums have increased by £38.6m from the previous year. This 24.6% increase is reflective of the growth in written premiums during the year.

Loss for the Financial Year

An overall loss of £4.0m was generated for the financial year driven by the large loss experience on a number of classes on the 2015 & Prior years of account. To date the 2016 year of account has performed favourably to plan.

Total Comprehensive Income

A loss of £6.1m was generated on translation of the Syndicate's accounts from its functional currency (USD) to its presentational currency (GBP).

Cash, investments and overseas deposits
Cash, investments and overseas deposits have increased by £50.4m during the year driven by the increase in written premiums, an increase of £7.6m in collateral deposited by certain of the Syndicate's reinsurers and the beneficial effects of the strengthening of USD to GBP from 1.47 at 31 December 2015 to 1.23 at the current year end on the predominantly USD based assets. On an FX adjusted basis the movement in cash, investments and overseas deposits, excluding collateral, is £17.9m.

Member's Balances
Member's balances, representing net liabilities of £17.5m have increased by £10.6m from 31 December 2015 following the 2016 calendar year loss of £6.1m and the distribution of the closing profit on the 2013 year of account of £4.5m.

Claims Ratio
The claims ratio increased by 8.7% to 52.4% for the 2016 calendar year driven by large loss activity. Favourable experience on the 2016 year of account was offset by the performance of the 2015 and prior years of account where Professional Lines, Marine & Cargo, Energy and Specialty RI classes were impacted by a number of large losses. In addition there were higher than expected levels of attrition on the Aviation classes. There was partially offsetting favourable experience on Property, Political Risks, Cyber and A&H classes across the years.

Acquisition Ratio
The acquisition ratio, calculated as the ratio of earned brokerage, commissions and acquisition expenses to net earned premiums, has increased by 4.0% to 43.4% for the 2016 calendar year. The ratios for both the 2016 and 2015 calendar years are elevated by the significant levels of quota share protection purchased – the ratio of acquisition costs to gross earned premiums by comparison is 33.2% for the 2016 calendar year and 29.9% for 2015. The 3.3% increase in the ratio is reflective of the change in business mix following the rebalancing of the portfolio over the past two years.

Expense Ratio
The expense ratio, calculated as the ratio of net operating expenses to net earned premiums, has reduced by 3.5% to 8.0% for the 2016 calendar year. The primary driver for this improvement is the increased scale of the Syndicate – net earned premiums increased by £38.6m from the prior period.

Combined Ratio
The combined ratio in 2016 has increased by 9.2% to 103.8% for the 2016 calendar year driven by the claims ratio as outlined above. Savings of 3.5% in the expense ratio were offset by an increase of 4.0% in the acquisition ratio.

Investments and investment return

	2016	**2015**
	£m	**£m**
Average amount of syndicate funds available for investment during the year:		
Sterling	13.4	10.6
Euro	2.2	6.4
US Dollar	155.9	128.9
Canadian Dollar	7.8	4.6
Combined in sterling	179.3	150.5
Gross aggregate investment return for the calendar year in Pounds Sterling	2.1	0.6
Gross calendar year investment return:		
Sterling	0.76%	(0.66)%
Euro	0.02%	0.00%
US Dollar	1.44%	0.49%
Canadian Dollar	1.07%	0.68%
Combined in sterling	1.17%	0.39%

The investment manager during the year was Amundi Asset Management.

The above investment returns are calculated using average funds based on the monthly balances and investments revalued to month-end market prices including accrued interest.

The Syndicate's investment portfolio is composed of debt instruments which are held at fair value through the Income Statement. The fixed income investment return of the Syndicate during the period attributable to the invested assets was 1.73%. The return is reflective of the Syndicate's investment policy which is focused on capital preservation through investing in a short duration and low credit risk portfolio. The invested portfolio duration at 31 December 2016 was 1.35 years (2015: 1.53 years) and the duration of the total funds was 1.06 years (2015: 1.08 years).

It is the Managing Agency's policy to actively monitor the Syndicate's currency exposures, and where possible, it seeks to match the Syndicate's assets and liabilities to the extent that regulatory restrictions allow.

Principal risks and uncertainties
On completion of AmTrust's purchase of ANV, the AmTrust at Lloyd's Governance and Risk Frameworks were adopted.

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

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

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

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

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

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

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

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

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

The Syndicate's exposure to reinsurance counterparties is managed by the Executive Committee which establishes standards applicable to all reinsurers and the reinsurance department which monitors the financial status of reinsurance debtors. The Board's policy is that the Syndicate will only reinsure with businesses rated A- or higher unless collateralised.

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

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

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

Liquidity risk
This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. The CFO, together with the Investment Committee, monitors cash flows and manages liquid assets to ensure that cash is available to meet obligations and operational liquidity needs.

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

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

Conduct Risk is the risk that customers experience poor outcomes in their engagement with ASL and is part of Regulatory Risk. This risk applies to all of the Syndicate's business but is particularly focused where the Syndicate insures retail risks especially using delegated underwriting. This has been an area of particular emphasis by the FCA and by Lloyd's, with the introduction of new minimum standards in this area. ASL has a Product Governance Committee which oversees its response to these requirements and operates a conduct framework designed to ensure that appropriate outcomes are delivered to customers.

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

Corporate Governance
Prior to the acquisition of ASL by AmTrust Lloyd's Holdings (UK) Ltd the ASL Board was chaired by Max Taylor and supported by three further Non-Executive Directors. Until the acquisition ASL had seven Executive Directors in total. Following the acquisition of ASL the Board is chaired by Bjorn Jansli and supported by five further Non-Executive Directors. ASL has eight Executive Directors in total.

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

The ASL Board meets at least four times a year and more frequently when business needs require. The Board has a schedule of matters reserved for its decision and has appointed an Executive Committee to manage the operations of the business. The Board and the Executive Committee are supported by an Audit Committee and a

Risk Committee. The Committee Framework includes a number of other Committees, including a dedicated Product Governance Committee to manage conduct risk issues.

Future Developments
For the 2017 year of account the Syndicate capacity has increased by £40.0m to £245.0m.

In 2017, the Syndicate will continue to look to deliver controlled growth within existing classes of business written in the Syndicate, with no new classes or significant changes to the overall current geographical composition. The emphasis will be on growing younger accounts, and leveraging our market-leader position where opportunities exist for disciplined, responsive and solution-driven underwriting. In recognition of the current environment, Syndicate 1861's plan for 2017 includes a contraction in classes where the market continues to see pressure on rates by surplus market capacity.

The Syndicate's cycle management skills will be tested again; focus will remain on profitable underwriting.

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

More widely at AmTrust at Lloyd's, the novation of the management of Syndicate 1206 from AmTrust at Lloyd's Limited to ASL in March 2017 was the first step in delivering on AmTrust at Lloyd's strategy to have one agency to manage the activities of a single combined property and casualty syndicate. For the 2017 year of account ASL has £636m of property and casualty capacity under management on its aligned participations on Syndicates 1861, 1206 and 5820. Management is looking to combine its underwriting interests across Syndicates 1861, 5820 and 1206 into one syndicate for the 2018 year of account by way of transferring the business and associated expenses.

It is management's expectations that this will not impact the results of the 2015, 2016 and 2017 years of account and that the 2015 and 2016 years of account will close by way of reinsurance to close into the successor years of account of this syndicate at the normal 36 month period on a similar basis to the closure of the 2014 year of account at 31 December 2016.

The overarching AmTrust at Lloyd's vision is for all managed syndicates to be classed as top quartile by Lloyd's, representative of both strong performance against plan and relative to peers and the overall capabilities of the managing agency. The underlying ethos is based on achieving a satisfactory return on capital employed across all syndicates whilst taking a long term view across the market cycle.

Finally, this is an opportunity for syndicate management to thank all employees for their continued commitment and hard work during a demanding, but stimulating, year in the Agency; as we look forward to capitalising on the opportunities that are available to a larger, combined AmTrust at Lloyd's platform in 2017 and beyond.

Staff matters
ASL considers its staff to be a key resource and the retention of staff fundamental to the success of the business. The strategy adopted by ASL is designed to ensure that the terms and conditions offered to employees, as part of their overall remuneration package, remain competitive with the rest of the London Market insurance industry.

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

Going Concern
After making enquiries, the Directors have a reasonable expectation that continued capital support will be in place such that the Syndicate is able to continue to write new business in future underwriting years of account subject to the successful combination of the underwriting of ASL's aligned syndicates for the 2018 year of account as outlined above in Future Developments. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

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

Disclosure of information to the auditors

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

Auditors

Following the acquisition of ANV Holdings B.V. and its affiliates, including the Syndicate's Managing Agent, by AmTrust Lloyd's Holdings (UK) Ltd. it is anticipated that the auditors of the Syndicate and Managing Agent will be aligned with the wider AmTrust group and that KPMG LLP will duly be appointed as auditors to the Syndicate and Managing Agent.

Syndicate's Annual General Meeting

AmTrust Syndicates Limited does not propose to hold an annual general meeting to appoint KPMG LLP as the Syndicate auditors.

P Dewey
Chief Executive Officer
AmTrust Syndicates Limited
21 March 2017

Company number: 4434499

Statement of Managing Agent's Responsibilities

The Managing Agent is responsible for preparing the Syndicate Annual Accounts in accordance with applicable law and regulations.

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

In preparing the Syndicate annual accounts, the Managing Agent is required to:

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

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

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on the website. Legislation in the UK governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Report of the Auditor

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 1861

We have audited the Syndicate annual financial statements for the year ended 31 December 2016 which comprise of the following primary financial statements; the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

This report is made solely to the Syndicate's members, as a body, in accordance with regulation 10 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Syndicate's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the managing agent and the auditor
As explained more fully in the Statement of Managing Agent's Responsibilities, the managing agent is responsible for the preparation of syndicate annual financial statements which give a true and fair view. Our responsibility is to audit and express an opinion on the syndicate annual 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 Syndicate annual financial statements
An audit involves obtaining evidence about the amounts and disclosures in the annual financial statements sufficient to give reasonable assurance that the annual financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the annual financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on syndicate annual financial statements
In our opinion the annual financial statements:

- give a true and fair view 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 United Kingdom 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 for the financial year in which the annual financial statements are prepared is consistent with the annual 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 (Lloyds's Syndicate and Aggregate Accounts) Regulations 2008 requires us to report to you, if in our opinion:

- the managing agent in respect of the syndicate has not kept adequate accounting records; or
- the syndicate annual 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.

Mark McQueen (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

21 March 2017

Income Statement: Technical Account – General Business

Year Ended 31 December 2016

	Note	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Earned premiums, net of reinsurance					
Gross premiums written	5	259,118		221,964	
Outward reinsurance premiums		(58,453)		(54,216)	
Net premiums written			200,665		167,748
Change in the provision for unearned premiums					
Gross amount	6	(3,794)		(15,342)	
Reinsurers' share	6	(1,557)		4,329	
Change in the net provision for unearned premiums			(5,351)		(11,013)
Earned premiums, net of reinsurance			195,314		156,735
Allocated investment return transferred from the non-technical account			2,068		582
Claims incurred, net of reinsurance					
Claims paid					
Gross amount		(94,718)		(119,537)	
Reinsurers' share		26,910		24,014	
Net claims paid			(67,808)		(95,523)
Change in the provision for claims					
Gross amount	6	(79,363)		28,133	
Reinsurers' share	6	44,751		(1,159)	
Change in the net provision for claims			(34,612)		26,974
Claims incurred, net of reinsurance			(102,420)		(68,549)
Net operating expenses	7		(100,503)		(79,875)
Balance on the technical account for general business			**(5,541)**		**8,893**

All of the Syndicate's activities are classed as continuing. The accompanying notes form an integral part of the financial statements.

Income Statement: Non-Technical Account

Year Ended 31 December 2016

	Note	2016 £'000	2015 £'000
Balance on the technical account – general business		**(5,541)**	**8,893**
Investment income	11	2,748	2,409
Investment expenses and charges	11	(380)	(561)
Unrealised gains on investments	11	250	29
Unrealised losses on investments	11	(550)	(919)
Allocated investment return transferred to technical account		(2,068)	(582)
Profit on foreign exchange		1,543	2,160
(Loss) / profit for the financial year		(3,998)	11,429

The accompanying notes form an integral part of the financial statements.

Statement of Comprehensive Income

Year Ended 31 December 2016

	2016 £'000	2015 £'000
(Loss) / profit for the financial year	(3,998)	11,429
Other Comprehensive Income:		
Exchange differences on translation to presentational currency	(2,063)	(106)
Total comprehensive (loss) / income for the financial year	(6,061)	11,323

Statement of Financial Position – Assets

at 31 December 2016

Assets	**Note**	**2016**	**2016**	**2015**	**2015**
		£'000	**£'000**	**£'000**	**£'000**
Investments					
Other financial investments	12		157,357		119,575
Reinsurers' share of technical provisions					
Provision for unearned premiums	6	37,209		31,802	
Claims outstanding	6	104,964		49,329	
			142,173		81,131
Debtors					
Debtors arising out of direct insurance operations	13	115,342		94,793	
Debtors arising out of reinsurance operations	14	9,699		6,019	
Other debtors	12,15	1,638		2,264	
			126,679		103,076
Other assets					
Cash at bank and in hand	12	13,260		7,076	
Other	12,16	17,988		11,595	
			31,248		18,671
Prepayments and accrued income					
Deferred acquisition costs	17	45,209		36,384	
Other prepayments and accrued income		6,243		1,134	
			51,452		37,518
Total assets			508,909		359,971

The accompanying notes form an integral part of the financial statements.

Statement of Financial Position – Liabilities

at 31 December 2016

Liabilities	**Note**	**2016**	**2016**	**2015**	**2015**
		£'000	**£'000**	**£'000**	**£'000**
Capital and reserves					
Members' balances			(17,470)		(6,855)
Technical provisions					
Provision for unearned premiums	6	158,897		131,858	
Claims outstanding	6	324,160		205,441	
			483,057		337,299
Deposits received from reinsurers	12,18		10,901		3,282
Creditors					
Creditors arising out of direct insurance operations	19	4,761		645	
Creditors arising out of reinsurance operations	20	26,783		23,910	
Other creditors	12,21	877		1,690	
			32,421		26,245
Total liabilities			508,909		359,971

The accompanying notes form an integral part of the financial statements.

The annual accounts on pages 14 to 42 were approved by the Board of ASL on 21 March 2017 and were signed on its behalf by:

J M Hamilton
Director

21 March 2017

Statement of Changes in Equity

Year Ended 31 December 2016

	2016	2015
	£'000	£'000
Members' balances brought forward at 1 January	(6,855)	10,616
Comprehensive income for the financial year	(6,061)	11,323
(Payments to) /amounts received from members' personal reserve fund	(4,554)	6,489
Transfer of Funds in Syndicate to Members	-	(35,283)
Members' balances carried forward at 31 December	(17,470)	(6,855)

Members participate on syndicates by reference to years of account and the ultimate result therefrom. Assets and liabilities are determined by reference to policies incepting in that year of account in respect of their membership of a particular year.

Statement of Cash Flows

Year Ended 31 December 2016

	2016 £'000	2015 £'000
(Loss) / profit for the year	(3,998)	11,429
Adjustment for:		
Increase in gross technical provisions	145,758	812
Increase in reinsurers' share of gross technical provisions	(61,042)	(6,376)
Increase / (decrease) in deposits received from reinsurers	7,619	(4,865)
Operating cash flow before movement in working capital	88,337	1,000
(Increase)/decrease in debtors	(23,603)	29,439
Increase/(decrease) in creditors	6,176	(25,195)
Increase in other assets/liabilities	(13,934)	(4,082)
Investment return	(2,068)	(582)
Other Comprehensive Income	(2,063)	(106)
Net cash inflow from operating activities	52,845	474
Cash flows from investing activities		
Net purchases and sales of equity and debt instruments	(38,082)	16,825
Investment income received	2,368	1,176
Movements in overseas deposits	(6,393)	(594)
Net cash (outflow) / inflow from investing activities	(42,107)	17,407
Net cash flow from financing activities:		
Transfer (to) / from members in respect of underwriting participations	(4,554)	6,287
Transfer of Funds in Syndicate to member	-	(35,283)
Other	-	202
Net cash outflow from financing activities	(4,554)	(28,794)
Net increase/(decrease) in cash and cash equivalents	6,184	(10,913)
Cash and cash equivalents at 1 January	7,076	17,989
Cash and cash equivalents at 31 December	13,260	7,076

Notes to the Financial Statements

1. **Basis of preparation**

The Syndicate comprises a group of members of the Society of Lloyd's that underwrites insurance business in the London Market. The address of the Syndicate's managing agent is 47 Mark Lane, London EC3R 7QQ.

The financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and Financial Reporting Standard 103 Insurance Contracts (FRS 103).

The financial statements have been prepared on the historical cost basis, except for financial assets measured at fair value through profit or loss. The Syndicate has early adopted the March 2016 amendment to paragraph 34.22 of FRS 102 in relation to fair value hierarchy. The fair value hierarchy is detailed in note 3.

The Syndicate's functional currency is US Dollars (USD). Gains and losses on the translation from functional currency to the GBP presentational currency have been recorded through the Statement of Other Comprehensive Income.

The financial statements are presented in Pounds Sterling (GBP) for consistency with the Syndicate's other regulatory reporting requirements. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

After making enquiries, the Directors have a reasonable expectation that continued capital support will be in place such that the Syndicate is able to continue to write new business in future underwriting years of account subject to the successful combination of the underwriting of ASL's aligned syndicates for the 2018 year of account as outlined in the Future Developments section within the Report of the Directors of the Managing Agent. Accordingly, the annual accounts have been prepared on the going concern basis.

2. **Use of judgements and estimates**

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

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

The Syndicate's principal estimates are for claims provisions and related recoveries. Management regularly reviews and revises these estimates as appropriate based on current information. Any adjustments made to these estimates are reflected in the period the estimates are revised.

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

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

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

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

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

3. Significant accounting policies

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

Gross premiums written

Premiums written comprise premiums on contracts of insurance incepted during the financial year as well as adjustments made in the year to premiums incepted in prior accounting periods. Premiums are shown gross of brokerage payable and are exclusive of taxes and duties thereon. Estimates are made for pipeline premiums, representing amounts due to the Syndicate not yet received.

Additional or return premiums are treated as a re-measurement of the initial premium.

Outwards reinsurance premiums

Written outwards reinsurance premiums comprise the total premiums payable for contracts entered into during the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Under some policies, reinsurance premiums payable are adjusted retrospectively in the light of claims experience. Where written premiums are subject to a re-measurement retrospectively they are recognised as soon as there is an obligation to the reinsurer.

Outwards reinsurance premiums are accounted for and earned in the same accounting period as the premiums for the related direct or inwards business being reinsured.

Technical provisions

Technical provisions comprise claims outstanding whether reported or not, provisions for unearned premiums and provisions for unexpired risk.

Claims provisions and related recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years. Incurred claims outstanding are reduced by anticipated salvage and other recoveries from third parties.

The amount of any salvage and subrogation recoveries is separately identified and where material, reported within other debtors.

The provision for claims outstanding is assessed on an individual case by case basis and is based on the estimated ultimate cost of all claims notified but not settled by the statement of financial position date, together with the provision for related claims handling costs. The provision also includes the estimated cost of claims incurred but not reported (IBNR) as well as claims incurred but not enough reported (IBNER) at the statement of financial position date based on statistical methods.

These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions.

For the most recent years, where a high degree of uncertainty arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions.

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

Accordingly the most critical assumptions as regards claims provisions are that the past is a reasonable predictor of the likely level of claims development, that the outstanding claims estimates are reasonable and that the rating and other models used for current business are based on fair reflections of the likely level of ultimate claims to be incurred. The level of uncertainty with regard to the estimations within these provisions generally decreases with the length of time elapsed since the underlying contracts were exposed to new risks.

The assessment of these provisions is usually the most subjective aspect of an insurer's accounts and may result in greater uncertainty within an insurer's accounts than within those of many other businesses. The Directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, the ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The provisions are not discounted for the investment earnings that may be expected to arise in the future on the funds retained to meet the future liabilities. The methods used, and the estimates made, are reviewed regularly.

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

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

The provision for unexpired risks is calculated separately by reference to classes of business which are regarded as managed together after taking into account relevant investment return.

Net operating expenses (including acquisition costs)
Net operating expenses include acquisition costs and amounts charged to members through the Syndicate.

Acquisition costs comprise costs arising from the conclusion of insurance contracts. They include both direct costs such as brokerage and commission, and indirect costs such as administrative expenses connected with the processing of proposals and the issuing of policies. Acquisition costs are deferred in line with the earning of the gross premiums to which they relate. The deferred acquisition cost asset represents the proportion of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the statement of financial position date.

Certain contracts between the Syndicate and its producing agents and brokers include the requirement to pay overrider commissions based on the volume of business produced on the Syndicate's behalf. Amounts in relation to this and other commissions are accrued and earned in line with the premium to which they relate and classified as acquisition costs.

Consortium fees
The Syndicate is a member of a number of underwriting consortia. Under the terms of these consortia participants are required to pay fees to the consortium leader in return for the business written on their behalf. Fees are accrued by the Syndicate in line with earning of the business written on each consortium and are calculated in accordance with the individual contractual arrangements. In addition the consortium arrangements include provisions for the payment of profit commissions based on the performance of the business written. The Syndicate accrues commissions in respect of these arrangements in accordance with the contractual terms based on the forecast performance of each consortium. Both the accrued consortium fees and accrued profit commissions are included within administrative expenses.

Foreign currencies
Transactions in foreign currencies are translated to the functional currency using the exchange rates at the date of the transactions. The Syndicate's monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rates of exchange at the statement of financial position date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items denominated in foreign currencies that are measured at historic cost are translated to the functional currency using the exchange rate at the date of the transaction. For the purposes of foreign currency translation, unearned premiums and deferred acquisition costs are treated as if they are monetary items.

Differences arising on translation of foreign currency amounts relating to the insurance operations of the Syndicate are included in the non-technical account.

Any gains or losses arising on the retranslation from functional currency to presentational currency are recorded through in other comprehensive income (OCI).

Financial Assets and Liabilities
The Syndicate has chosen to apply the provisions of Section 11 (Basic Financial Instruments) and Section 12 (Other Financial Instruments Issues) of FRS 102 for the treatment and disclosure of financial assets and liabilities.

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

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

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

Subsequent measurement:
All debt instruments are measured at fair value through the income statement.

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

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

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

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

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

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

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

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

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

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

Impairment of financial instruments measured at amortised cost or cost:

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

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

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

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

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

Realised gains and losses represent the difference between the net proceeds on disposal and the purchase price. Unrealised gains and losses on investments represent the difference between the fair value at the statement of financial position date and their purchase price. Movements in unrealised investment gains and losses comprise the increase/decrease in the reporting period in the value of the investments held at the reporting date and the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals of the current period, or the valuation at the beginning of the year; as well as the reversal of previously recognised unrealised gains and losses in respect of investment disposed of in the current period.

Investment return is initially recorded in the Non-Technical Account and subsequently transferred to the Technical Account to reflect the investment return on funds supporting the underwriting business.

Deposits received from reinsurers
The Syndicate requires certain reinsurers to collateralise their potential exposure to the Syndicate through the depositing of funds under the control of the Syndicate. To the extent that the funds are not called upon as paid recoveries at the statement of financial position date they are recorded as cash with a corresponding liability recorded as deposits received from reinsurers.

Taxation
Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax (currently at 20%) deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to members or their members' agents is gross of tax. Capital appreciation falls within trading income and is also distributed gross of tax.

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the Syndicate during the year have been included in the statement of financial position under the heading 'other debtors'.

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

Managing Agent's profit commission
ASL has agreed contractual terms with the capital providers to the Syndicate for the payment of profit commissions based on the performance of the individual years of account of the Syndicate. Profit commissions are accrued in line with the contractual terms and the development of the result of the underlying years of account.

Amounts charged to the Syndicate do not become payable until after the appropriate year of account closes, normally at 36 months, although the Managing Agent may receive payments on account of anticipated profit commissions in line with interim profits released to members.

Retirement benefit scheme costsASL operates a defined contribution scheme through a related party, ANV Central Bureau of Services Limited (CBS). Pension contributions relating to staff working on behalf of the Syndicate are charged to the Syndicate and included within net operating expenses.

4. Risk and capital management

The Managing Agent has overall responsibility for the establishment and oversight of the Syndicate's risk management framework. The Risk Committee oversees the operation of the Syndicate's risk management framework and reviews and monitors the management of the risks to which the Syndicate is exposed. Risk management policies are established to identify and analyse the risks faced by the Syndicate, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Insurance Risk

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

The Managing Agent uses catastrophe modelling software to model maximum probable losses from catastrophe-exposed business in major territories. Reserve adequacy is monitored through quarterly review by the Syndicate's actuaries. The Reserving Committee performs a comprehensive review of the projected reserves, both gross and net of reinsurance, and makes recommendations to the Managing Agent's board of directors, via the executive committee, as to the claims provisions to be established. In addition the Agency receives independent external analysis of the reserve requirements annually.

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

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

Territory	2016 £'000	2015 £'000
United States of America	97,592	80,429
United Kingdom	104,320	89,722
European (exc. UK)	30,591	25,959
Asia	8,035	6,118
Other Worldwide	18,580	19,736
Total	**259,118**	**221,964**

iii. Sensitivity to insurance risk

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

	2016 £'000		2015 £'000	
	Gross	**Net**	**Gross**	**Net**
5% increase in total claims liabilities	(16,018)	(10,770)	(10,154)	(7,668)
5% decrease in total claims liabilities	16,018	10,770	10,154	7,668

Investment risk

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

Credit risk

Credit risk is the risk of financial loss to the Syndicate if a counterparty fails to discharge a contractual obligation.

The Syndicate is exposed to credit risk in respect of the following:

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

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

The Syndicate's exposure to reinsurance counterparties is managed by the Executive Committee which establishes standards applicable to all reinsurers and the reinsurance department which monitors the financial status of reinsurance debtors. The Board's policy is that the Syndicate will only reinsure with businesses rated A- or higher unless collateralised.

The credit rating of the assets within the statement of financial position is as follows:

As at 31 December 2016	AAA £'000	AA £'000	A £'000	BBB £'000	Not rated £'000	Total £'000
Financial investments						
Shares and other variable yield securities and units in unit trusts	19,059	-	-	-	-	19,059
Debts securities and other fixed income securities	32,675	53,402	37,091	15,130	-	138,298
Overseas deposits	17,988	-	-	-	-	17,988
Reinsurers' share of technical provisions	-	19,350	85,571	-	43	104,964
Debtors arising out reinsurance operations	-	2,708	5,056	-	1,935	9,699
Debtors arising out of direct insurance operations	-	-	-	-	115,342	115,342
Other debtors	-	-	-	-	1,638	1,638
Cash at bank and in hand	-	-	13,260	-	-	13,260
Total[1]	69,722	75,460	140,978	15,130	118,958	420,248

[1] *The above analysis excludes those assets reported in the statement of financial position which are not cash settled and therefore not exposed to credit risk.*

As at 31 December 2015	AAA £'000	AA £'000	A £'000	BBB £'000	Not rated £'000	Total £'000
Financial investments						
Shares and other variable yield securities and units in unit trusts	20,595	-	-	-	-	20,595
Debts securities and other fixed income securities	27,674	33,359	26,652	11,295	-	98,980
Overseas deposits	11,595	-	-	-	-	11,595
Reinsurers' share of technical provisions	889	9,801	38,636	-	3	49,329
Debtors arising out reinsurance operations	-	1,230	4,793	-	-	6,023
Debtors arising out of direct insurance operations	-	-	-	-	94,793	94,793
Other debtors	-	-	-	-	2,264	2,264
Cash at bank and in hand	-	-	7,076	-	-	7,076
Total[1]	60,753	44,390	77,157	11,295	97,060	290,655

[1] *The above analysis excludes those assets reported in the statement of financial position which are not cash settled and therefore not exposed to credit risk.*

Financial assets that are past due or impaired

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

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

Debtors arising from direct insurance operations	**2016 £'000**	**2015 £'000**
Past due but not impaired financial assets:		
Past due by:		
1 to 90 days	347	111
91 to 180 days	280	198
More than 180 days	1,777	2,682
Past due but not impaired financial assets	**2,404**	**2,991**
Impaired financial assets	-	-
Neither past due nor impaired financial assets	**112,938**	**91,802**
Net carrying value	**115,342**	**94,793**

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

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

Interest rate risk arises primarily from the Syndicate's financial investments, cash and overseas deposits. The risk of change in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The Investment Committee monitors the duration of these assets on a regular basis. An analysis of the Syndicate's sensitivity to interest rate changes on the result and net assets of the Syndicate is presented in the following table.

	2016 Profit or loss for the year £'000	2015 Profit or loss for the year £'000
Interest rate risk		
+ 50 basis points shift in yield curves	(787)	(791)
- 50 basis points shift in yield curves	787	791

The key aspect of exchange rate risk is that the Syndicate incurs losses on foreign exchange movements as a result of mismatches between the currencies in which assets and liabilities are denominated. The Managing Agent's Chief Financial Officer (CFO) reviews currency matching quarterly. Where there is a significant mismatch, appropriate risk mitigation techniques to minimise the effects of currency movements are considered such as the use of currency forward contracts.

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

As at 31 December 2016	Sterling £'000	Euro £'000	US Dollar £'000	Can Dollar £'000	Total £'000
Total assets	74,135	28,622	395,015	11,137	508,909
Total liabilities	(74,946)	(42,968)	(399,474)	(8,991)	(526,379)
Net assets / (liabilities)	**(811)**	**(14,346)**	**(4,459)**	**2,146**	**(17,470)**

As at 31 December 2015	Sterling £'000	Euro £'000	US Dollar £'000	Can Dollar £'000	Total £'000
Total assets	70,541	5,593	276,893	6,944	359,971
Total liabilities	(59,324)	(21,480)	(280,690)	(5,332)	(366,826)
Net assets/ (liabilities)	**11,217**	**(15,887)**	**(3,797)**	**1,612**	**(6,855)**

If the exchange rates of all non-USD currencies moved by a foreseeable 5% either to the benefit or detriment of the Syndicate at the same time, the impact on both the result for the year and the members' balances, expressed in presentational GBP terms, would be £0.7m (2015: £0.7m).

Liquidity risk
This is the risk that the Syndicate will not be able to meet its liabilities as they fall due, owing to a shortfall in cash. The CFO monitors cash flows and manages liquid assets to ensure that cash is available to meet obligations and operational liquidity needs. The table below summarises the maturity profile of the Syndicate's statement of financial position based on the estimated timing of claims payments and other undiscounted contractual obligations.

As at 31 December 2016	Carrying amount	Total cash flows	Undiscounted net cash flows Less than 1 year	1-2 years	2-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	19,059	19,059	19,059	-	-	-
Debts securities and other fixed income securities	138,298	138,298	46,283	40,711	49,483	1,821
Overseas deposits	17,988	17,988	17,988	-	-	-
Reinsurers' share of technical provisions:						
Reinsurers' share of outstanding claims	104,964	104,964	37,192	23,553	31,541	12,678
Reinsurers' share of unearned premiums[1]	37,209	-	-	-	-	-
Insurance and reinsurance receivables	125,041	125,041	124,998	43	-	-
Cash at bank and in hand	13,260	13,260	13,260	-	-	-
Deferred Acquisition Costs[1]	45,209	-	-	-	-	-
Other assets	7,881	7,881	7,486	169	210	16
Total assets	508,909	426,491	262,266	64,476	81,234	14,515
Gross share of technical provisions:						
Outstanding claims	(324,160)	(324,160)	(120,193)	(73,742)	(92,727)	(37,498)
Unearned premiums[1]	(158,897)	-	-	-	-	-
Insurance and reinsurance payables	(31,544)	(31,544)	(31,544)	-	-	-
Other creditors	(11,778)	(11,778)	(11,778)	-	-	-
Total liabilities	(526,379)	(367,482)	(163,515)	(73,742)	(92,727)	(37,498)
Net assets / (liabilities)	(17,470)	59,009	102,751	(9,266)	(11,493)	(22,983)

[1] These assets/liabilities are not cash settled and therefore have no future net cash flow in the above note.

As at 31 December 2015 Restated[2]	Carrying amount	Total cash flows	Undiscounted net cash flows Less than 1 year	1-2 years	2-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Financial investments:						
Shares and other variable yield securities and units in unit trusts	20,595	20,595	20,595	-	-	-
Debts securities and other fixed income securities	98,980	98,980	22,662	39,955	34,468	1,895
Overseas deposits	11,595	11,595	11,595	-	-	-
Reinsurers' share of technical provisions						
Reinsurers' share of outstanding claims	49,329	49,329	13,010	11,121	17,861	7,337
Reinsurers' share of unearned premiums[1]	31,802	-	-	-	-	-
Insurance and reinsurance receivables	100,813	100,813	100,813	-	-	-
Cash at bank and in hand	7,076	7,076	7,076	-	-	-
Deferred Acquisition Costs[1]	36,383	-	-	-	-	-
Other assets	3,398	3,398	3,096	175	114	13
Total assets	359,971	291,786	178,847	51,251	52,443	9,245
Gross share of technical provisions:						
Outstanding claims	(205,441)	(205,441)	(68,731)	(47,994)	(63,591)	(25,125)
Unearned premiums[1]	(131,858)	-	-	-	-	-
Insurance and reinsurance payables	(24,554)	(24,554)	(24,554)	-	-	-
Other creditors	(4,973)	(4,973)	(4,973)	-	-	-
Total liabilities	(366,826)	(234,968)	(98,258)	(47,994)	(63,591)	(25,125)
Net assets / (liabilities)	(6,855)	56,818	80,589	3,257	(11,148)	(15,880)

[1] These assets/liabilities are not cash settled and therefore have no future net cash flow in the above note.
2 The 2015 note has been restated to be comparative to the 2016 note.

In the previous tables debt securities are presented according to their maturity dates. In practice cash could be realised through the sale of these investments which are actively traded. The disclosure does not take account of premiums received from new business written which can be used to pay claims arising.

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

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

Capital management (excluding Funds at Lloyd's)
The Managing Agent's objectives in managing the capital of the Syndicate, consistent with the risk profile and the regulatory and market requirements of its business are:

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 1861 is not disclosed in these financial statements.

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicates on which it participates though not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR is therefore determined by the sum of the member's shares of the Syndicates' SCR to ultimate. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss to ultimate for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, the combination of both is known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift was 35% of the member's SCR to ultimate, plus an additional 20% uplift until the mid-year 2016 Coming into Line.

Provision of capital by members
Each member may provide capital to meet its ECA either by assets held in trust by Lloyd's specifically for that member (Funds at Lloyd's), assets held and managed within a syndicate (Funds in Syndicate), or as the member's share of the members' balances on each syndicate on which it participates. Accordingly, all of the assets less liabilities of the Syndicate, as represented in the members' balances reported on the Statement of Financial Position on pages 16 to 17, represent resources available to meet members' and Lloyd's capital requirements.

Funds at Lloyd's

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

5. Business class analysis

An analysis of the technical account result by business class before investment return is set out below:

2016 Calendar Year	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance						
Accident and health	18,029	19,776	(8,192)	(10,219)	(787)	578
Miscellaneous	145	148	(27)	(69)	1	53
Marine, Aviation and Transport	35,606	36,119	(38,782)	(13,180)	11,537	(4,306)
Fire and other damage to Property	46,031	45,003	(20,592)	(17,980)	(4,808)	1,623
Third party liability	79,761	66,458	(50,512)	(29,483)	7,192	(6,345)
Credit and Suretyship	16,423	20,610	(11,214)	(7,959)	1,131	2,568
Total direct	195,995	188,114	(129,319)	(78,890)	14,266	(5,829)
Reinsurance	63,123	67,210	(44,762)	(21,613)	(2,615)	(1,780)
Total	259,118	255,324	(174,081)	(100,503)	11,651	(7,609)

2015 Calendar Year	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000
Direct insurance						
Accident and health	18,389	17,993	(7,958)	(8,938)	(1,111)	(14)
Miscellaneous	89	166	(125)	(38)	(18)	(15)
Marine, Aviation and Transport	29,510	29,439	(12,763)	(10,042)	(4,506)	2,128
Fire and other damage to Property	37,737	40,999	(12,847)	(13,498)	(7,960)	6,694
Third party liability	58,004	40,853	(24,466)	(20,308)	(2,778)	(6,699)
Credit and Suretyship	18,650	14,866	(6,311)	(6,878)	(1,040)	637
Total direct	162,379	144,316	(64,470)	(59,702)	(17,413)	2,731
Reinsurance	59,585	62,306	(26,934)	(20,173)	(9,619)	5,580
Total	221,964	206,622	(91,404)	(79,875)	(27,032)	8,311

Gross operating expenses are the same as net operating expenses shown in the income statement as no commissions in respect of outward reinsurance were received and set off in arriving at the net operating expenses for 2016 and 2015.

Commissions on direct insurance gross premiums earned during 2016 were £46.3m (2015: £46.8m).

All premiums relate to contracts concluded in the UK.

The gross premiums written for direct insurance by business origin are presented in the table below:

	2016 £'000	2015 £'000
UK	68,131	57,388
Other EU countries	25,284	20,235
US	82,830	66,531
Other	19,750	18,225
Total	195,995	162,379

6. Technical provisions

The Syndicate has applied a similar approach at the current year end to that applied at the previous year end in establishing the technical provisions for claims outstanding reserves and reinsurers' share thereof. Included within net claims incurred of £102.4m (2015: £68.5m) is a deterioration of £2.8m (2015: improvement of £9.0m) to claims reserves established at the prior year end principally due to unfavourable developments on Professional Lines and Marine Liability with partially offsetting favourable developments across the other classes.

	Unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2016	131,858	205,441	337,299
Movement in provision	3,794	79,363	83,157
Foreign exchange	23,245	39,356	62,601
At 31 December 2016	158,897	324,160	483,057
Reinsurance			
At 1 January 2016	31,802	49,329	81,131
Movement in provision	(1,557)	44,751	43,194
Foreign exchange	6,964	10,884	17,848
At 31 December 2016	37,209	104,964	142,173
Net technical provisions			
At 31 December 2016	121,688	219,196	340,884
At 31 December 2015	100,056	156,112	256,168

	Unearned premiums £'000	Claims outstanding £'000	Total £'000
Gross			
At 1 January 2015	111,708	224,779	336,487
Movement in provision	15,342	(28,133)	(12,791)
Foreign exchange	4,808	8,795	13,603
At 31 December 2015	131,858	205,441	337,299
Reinsurance			
At 1 January 2015	26,245	48,510	74,755
Movement in provision	4,329	(1,159)	3,170
Foreign exchange	1,228	1,978	3,206
At 31 December 2015	31,802	49,329	81,131
Net technical provisions			
At 31 December 2015	100,056	156,112	256,168
At 31 December 2014	85,463	176,269	261,732

7. Net operating expenses

	2016 £'000	2015 £'000
Brokerage and commissions	71,504	50,624
Other acquisition costs	17,155	13,520
Acquisition costs	88,659	64,144
Change in deferred acquisition costs	(3,823)	(2,340)
Administrative expenses	11,276	14,725
Members' standard personal expenses	4,391	3,346
	100,503	79,875

8. Auditors' remuneration

	2016 £'000	2015 £'000
Audit of syndicate annual accounts	89	86
Other services pursuant to regulations and Lloyd's byelaws	84	73
Other services relating to Statement of Actuarial Opinion	77	75
	250	234

9. Staff numbers and costs

All staff are employed by a related party, ANV Central Bureau of Services Limited (CBS). The average number of persons employed by CBS, but working for the Syndicate during the year, analysed by category, was as follows:

	2016	2015
Finance and administration	37	31
Underwriting	56	52
Claims	10	6
	103	89

The following amounts were recharged by CBS to the Syndicate in respect of payroll costs:

	2016 £'000	2015 £'000
Wages and salaries	13,024	11,874
Social security costs	1,692	1,467
Other pension costs	798	762
	15,514	14,103

10. Key management personnel compensation

The Directors of ASL received the following aggregate remuneration charged to the Syndicate and included within net operating expenses:-

	2016 £'000	2015 £'000
Emoluments	1,111	1,161
Contributions to defined contribution pension schemes	41	24
	1,152	1,185

The remuneration of 11 directors is charged to the Syndicate (2015: 10). Profit-related remuneration for the directors and Active Underwriter is charged to the Syndicate. No other compensation was payable to key management personnel.

The active underwriter received the following aggregate remuneration charged as a syndicate expense and was the highest paid member of key management personnel in respect of amounts charged to the Syndicate.

	2016 £'000	2015 £'000
Emoluments	563	536
Contributions to defined contribution pension schemes	15	29
	578	565

11. Investment return

The investment return transferred from the technical account to the non-technical account comprises the following:

	2016 £'000	2015 £'000
Investment income:		
Interest and dividend income	2,426	1,764
Realised gains	322	99
Unrealised gains on investments	250	29
Investment expenses and charges:		
Investment management expenses, including interest	(114)	(209)
Losses on the realisation of investments	(266)	(321)
Unrealised losses on investments	(550)	(780)
Total investment return transferred to the technical account from the non-technical account	2,068	582

The total income, expenses, net gains or losses, including changes in fair value, recognised on all financial assets and financial liabilities comprises the following:

	2016 £'000	2015 £'000
Financial assets at fair value through profit or loss	2,182	737
Financial assets at amortised cost:		
Interest income	-	54
Investment management expenses, excluding interest	(114)	(209)
Total investment return	2,068	582

12. Financial instruments

The carrying values of the Syndicate's financial assets and liabilities are summarised by category below:

Financial assets	2016 £'000	2015 £'000
Measured at fair value through profit and loss		
• Shares and other variable yield securities and units in unit trusts	19,059	20,595
• Debt securities and other fixed income securities	138,298	98,980
	157,357	119,575
• Overseas deposits (see note 16)	17,988	11,595
Total financial assets measured at fair value through profit and loss	175,345	131,170
Measured at cost		
• Cash and cash equivalents	13,260	7,076
	13,260	7,076
Measured at undiscounted amount receivable		
• Other debtors (see note 15)	1,638	2,264
Total financial assets	190,243	140,510

Only deposits with credit institutions with maturities of three months or less that are used by the Syndicate in the management of its short-term commitments are included in cash and cash equivalents.

Financial liabilities	2016 £'000	2015 £'000
Measured at cost		
• Reinsurance collateral (see note 18)	10,901	3,282
Measured at undiscounted amount payable		
• Other creditors (see note 21)	877	1,690
Total financial liabilities	11,778	4,972

Shares and other variable yield securities, units in unit trusts and debt securities and other fixed income securities are all listed on recognised stock exchanges. The cost on acquisition of debt securities and other fixed income securities was £137.9m (2015: £99.3m). The cost on acquisition of other financial instruments is the same as the carrying value.

All investments are measured at fair value through profit or loss. The Syndicate did not hold any derivative financial instruments during the year (2015: none). The Syndicate does not enter into or trade instruments for speculative purposes.

The Syndicate classifies its financial instruments held at fair value in its statement of financial position using a fair value hierarchy, as follows:

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

The table below analyses financial instruments held at fair value in the Syndicate's statement of financial position at the reporting date by its level in the fair value hierarchy.

31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Shares and other variable yield securities and units in unit trusts	338	18,721	-	19,059
Debt securities and other fixed income securities	23,308	114,990	-	138,298
Overseas deposits	-	17,988	-	17,988
	23,646	151,699	-	175,345

31 December 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Shares and other variable yield securities and units in unit trusts	562	20,033	-	20,595
Debt securities and other fixed income securities	12,206	86,774	-	98,980
Overseas deposits	-	11,595	-	11,595
	12,768	118,402	-	131,170

Information on the methods and assumptions used to determine fair values for each major category of financial instrument measured at fair value is provided below.

Some government and supranational securities are listed on recognised exchanges and are generally classified as level 1 in the fair value hierarchy. Those that are not listed on a recognised exchange are generally based on composite prices of recent trades in the same instrument and are generally classified as level 2 in the fair value hierarchy.

Shares and other variable yield securities and units in unit trusts represent the Syndicate's interest in money market funds. The categorisation of the fair value of these by level has been determined by looking through the funds to the underlying holdings within the collective investment schemes. Corporate bonds, including asset backed securities that are not listed on a recognised exchange or are traded in an established over-the-counter market, are also mainly valued using composite prices. Where prices are based on multiple quotes and those quotes are based on actual recent transactions in the same instrument the securities are classified as level 2, otherwise they are classified as level 3 in the fair value hierarchy.

Debt securities are generally valued using prices provided by external pricing vendors. Pricing vendors will often determine prices by consolidating prices of recent trades for identical or similar securities obtained from a panel of market makers into a composite price. The pricing service may make adjustments for the elapsed time from a trade date to the valuation date to take into account available market information. Lacking recently reported trades, pricing vendors will use modelling techniques to determine a security price.

Management performs an analysis of the prices obtained from pricing vendors to ensure that they are reasonable and produce a reasonable estimate of fair value. Management considers both qualitative and quantitative factors as part of this analysis.

13. Debtors arising out of direct insurance operations

	2016 £'000	2015 £'000
Due within one year – intermediaries	115,342	94,793

14. Debtors arising out of reinsurance operations

	2016 £'000	2015 £'000
Due within one year – intermediaries	9,656	6,019
Due after one year – intermediaries	43	-
	9,699	6,019

15. Other debtors

	2016 £'000	2015 £'000
Balances with group companies	1,638	2,212
Other debtors	-	52
	1,638	2,264

16. Other assets - Other

	2016 £'000	2015 £'000
Other – overseas deposits	17,988	11,595

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

17. Deferred acquisition costs

	2016 £'000	2015 £'000
At 1 January	36,384	33,038
Movement in provision	3,823	2,340
Exchange adjustments	5,002	1,006
At 31 December	45,209	36,384

18. Deposits received from reinsurers

	2016 £'000	2015 £'000
Reinsurance collateral	10,901	3,282

Cash at bank and in hand includes £10.9m in relation to funds deposited by reinsurers to collateralise their potential exposure (2015: £3.3m). A corresponding creditor is recorded as deposits received from reinsurers.

19. Creditors arising out of direct insurance operations

	2016 £'000	2015 £'000
Due within one year – intermediaries	4,761	645

20. Creditors arising out of reinsurance operations

	2016 £'000	2015 £'000
Due within one year – intermediaries	26,783	23,910

21. Other creditors

	2016 £'000	2015 £'000
Balances with group companies	26	1,690
Profit commission payable	851	-
	877	1,690

22. Claims development

The following tables show the estimates of cumulative incurred claims, including both claims notified and IBNR for each successive underwriting year at each reporting date, together with cumulative payments to date. Balances have been translated at exchange rates prevailing at 31 December 2016 in all cases. All balances presented are in respect of premiums earned to statement of financial position date and therefore reflect the pattern of earning and risk exposure over a number of calendar years. The entity chose not to disclose information about claims development that occurred earlier than five years before the end of the first financial year in which FRS 103 is applied in line with a transitional provision (FRS 103.6.3).

Gross basis as at 31 December 2016:

Pure underwriting year	**2011 £'000**	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2016 £'000**	**Total £'000**
Incurred gross claims							
At end of underwriting year	61,410	79,554	50,524	62,887	63,931	74,799	
one year later	99,925	128,144	119,663	117,250	151,993	-	
two years later	97,524	129,763	116,812	130,588	-	-	
three years later	97,182	128,912	124,785	-	-	-	
four years later	94,344	131,846	-	-	-	-	
five years later	94,844	-	-	-	-	-	
Gross ultimate claims on premium earned to date	94,844	131,846	124,785	130,588	151,993	74,799	708,855
Gross ultimate claims on premium earned to date for 2010 & Prior years	10,395	-	-	-	-		10,395
Less gross claims paid	(87,646)	(103,325)	(91,378)	(69,444)	(35,301)	(7,996)	(395,090)
Gross claims reserves	17,593	28,521	33,407	61,144	116,692	66,803	324,160

Net basis as at 31 December 2016:

Pure underwriting year	**2011 £'000**	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2016 £'000**	**Total £'000**
Incurred net claims							
At end of underwriting year	59,060	67,176	44,864	50,400	49,510	58,332	
one year later	77,298	101,943	106,107	89,081	100,454	-	
two years later	74,424	101,101	101,347	89,216	-	-	
three years later	72,711	102,165	105,386	-	-	-	
four years later	70,599	102,038	-	-	-	-	
five years later	69,316	-	-	-	-	-	
Net ultimate claims on premium earned to date	69,316	102,038	105,386	89,216	100,454	58,332	524,742
Net ultimate claims on premium earned to date for 2010 & Prior years	8,335	-	-	-	-		8,335
Less net claims paid	(63,844)	(80,773)	(82,614)	(50,826)	(29,505)	(6,319)	(313,881)
Net claims reserves	13,807	21,265	22,772	38,390	70,949	52,013	219,196

23. Year of account result development

The table below presents the annual results for each year of account until the earlier of the current year end and closure of the year of account by reinsurance to close. Subsequent movements in results for closed years of account are reflected within the results for the year into which they closed. The Syndicate has a significant proportion of unearned business at the end of year one in comparison with its peers as a result of the longer earnings profile of the Consumer Products business written relative to Property and Casualty insurance. A deficit therefore occurs in the first year of a year of account as a result of the timing of expense charges. This would be expected to improve in subsequent years.

		2010 £'000	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	(Loss)/profit before members' agents fees £'000
Year of Account	2010	(12,948)	(4,782)	1,355					(16,375)
	2011		(22,803)	16,289	8,227				1,713
	2012			(21,243)	(2,948)	17,703			(6,488)
	2013				(8,864)	1,687	11,730		4,553
	2014					(9,524)	10,055	3,479	4,010
	2015						(11,939)	6,834	(5,105)
	2016							(16,374)	(16,374)
	FIS Income	-	-	-	(310)	2,379	1,477	-	
	Calendar year result	(12,948)	(27,585)	(3,599)	(3,895)	12,245	11,323	(6,061)	

24. Retirement benefit schemes

ANV Central Bureau of Services Limited (CBS) operates a defined contribution retirement benefit scheme for all qualifying employees. The funds of the scheme are administered by Aviva plc and are held separately. Contributions are paid by CBS and staff. The group also makes payments into certain other staff personal pension plans. The total expense recharged from CBS to the Syndicate's income statement for the year ended 31 December 2016 in respect of these was £0.8m (2015: £0.8m).

25. Related parties

Prior to 15 July 2016, ANV Holdings (UK) Limited (AHUK) held 80% of the ordinary shares of ANV Syndicate Management Limited (ASML) with the remaining 20% held by Ryan Specialty Group, LLC (RSG). Following AHUK's acquisition of RSG's 20% shareholding on 15 July 2016, AHUK owns 100% of the issued share capital of ASML. ASML is the immediate parent company of AmTrust Syndicates Limited (formerly ANV Syndicates Ltd - ASL). AHUK is a wholly owned subsidiary of ANV Risk BV and the ultimate holding company of the ANV Group is ANV Holdings BV.

On 7 November 2016, ANV Holdings BV, and its subsidiary undertakings (ANV Group), was acquired by AmTrust Lloyd's Holdings (UK) Ltd (an indirect, wholly owned subsidiary of AmTrust Financial Services, Inc.) from the company's former lead investor, the Ontario Teachers' Pension Plan. Following this transaction the name of ANV's managing agency was changed to AmTrust Syndicates Ltd.

Transactions with Group Entities
Lloyd's market regulations require that a Managing Agent be responsible for engaging underwriting staff and managing the affairs of each syndicate at Lloyd's on behalf of the syndicate members.

From 1 January 2015 ANV Central Bureau of Services Limited (CBS), a group company, has performed the recharging of all costs to the Syndicate under intragroup service agreements. These arrangements have been updated to include relevant AmTrust service companies (AmTrust Lloyd's Holdings Ltd and AmTrust Management Services Ltd) with effect from 7 November 2016. No recharges were made from these entities during the period. Profit-related remuneration for the Syndicate's underwriting staff is charged to the Syndicate.

ANV Corporate Name Limited provides 100% of the capacity for the 2013, 2014, 2015 and 2016 years of account for Syndicate 1861. AmTrust Corporate Member Limited provides 100% of the capacity for the 2017 year of account.

Syndicate 1969, a syndicate managed by ASL under a 'turnkey' arrangement until the successful launch of its own managing agency on 1 August 2015, purchased an Energy excess of loss reinsurance policy on which Syndicate 1861 participates. Subsequent to the establishment of its own managing agency, Syndicate 1969 is no longer considered a related party. During 2015 reinsurance premiums amounted to £0.4m.

The Syndicate acts a consortium leader, with ASL as the consortium manager, for a number of consortia on which Syndicate 5820, another syndicate managed by ASL and participated on by ANV Corporate Name Limited, is a member. During the period £51.1m (2015: £23.7m) was written by the Syndicate as consortium leader on behalf of Syndicate 5820. Fees are charged by ASL as the consortium manager on behalf of the Syndicate to the other consortium members. At 31 December 2016 the Syndicate had accrued income of £1.3m (2015: £0.3m) due from Syndicate 5820 in this respect. During 2015, £3.1m was written by 1861 as consortium leader on behalf of Syndicate 1969 with fees of £0.2m due from Syndicate 1969 as 31 December 2015 in this respect.

A proportion of the business written by the Syndicate is sourced from companies within the AmTrust Group, and, prior to the acquisition of ANV, the ANV Group. These include:

- ANV Global Services Inc.; and
- ANV Global Services Ltd

Transactions with the above entities are as set out below (£m):

2016	**ANV Global Services Inc.**	**ANV Global Services Ltd.**
Gross premium written	3.2	11.5
Commission	0.4	1.6
Payable at 31 December 2016	2.8	3.0

2015	**ANV Global Services Inc.**	**ANV Global Services Ltd.**
Gross premium written	2.5	13.0
Commission	0.3	1.9
Payable at 31 December 2015	0.2	4.6

The Directors of ASL consider the commissions charged to the Syndicate by these companies within the ANV Group to be consistent with those payable to a third party for similar services.

At the statement of financial position date, the Syndicate has amounts due to ANV Group companies, which are included in 'Other debtors' or 'Other creditors' on the statement of financial position:

	2016	**Restated 2015[1]**
	£'000	**£'000**
Other Debtors		
ANV Central Bureau of Services	976	2,066
ANV Global Services Ltd	12	2
ANV Corporate Name Ltd	650	547
	1,638	2,615
Other Creditors		
AmTrust Syndicates Ltd	-	168
ANV Central Bureau of Services	-	1,521
ANV Global Services Ltd	26	-
ANV Global Services Inc.	-	403
	26	2,092

[1] *This note has been restated to separately classify balances previously reported as being held with ANV Group into the individual counterparties and to include an amount of £166k not previously reported as being due to with group companies.*

In addition, the Syndicate has accrued profit commission payable to the Managing Agent of £0.9m (2015: £0.0m) in respect of the 2014 Year of Account. No amounts have been accrued on the subsequent years of account. Profit commission is not paid until the year of account in respect of which it was earned closes after three years.

ASL and other group companies have charged the Syndicate with the following expenses during the year:

	2016	2015
	£'000	£'000
Managing agent fees charged by ASL	1,644	1,480
Group recharges from CBS	27,351	26,018
Total	28,995	27,498

Group recharges from CBS, which are charged on a cost basis, predominantly represent recharges of staff costs for employees working on syndicate business as well as other administrative expenses including accommodation, professional fees and information technology.

Transactions with other entities
As part of the sale of JMAL to the ANV Group in 2013, Ryan Specialty Group, LLC (RSG) acquired a 20% shareholding in ASML, the immediate parent company of ASL.

Syndicate 1861 may source business from RSG on the open market through Lloyd's brokers. All risks are entered into on an arm's length basis and ASL has unfettered underwriting discretion for all opportunities.

Prior to the commencement of underwriting on the 2015 year of account an agreement was entered into with Securis with respect to the period beginning on 1 January 2015 to support the Funds at Lloyd's of ANV Corporate Name Limited, an ANV group company and sole participant on the capacity of the Syndicate, through the provision of a letter of credit backed by an excess of loss reinsurance contract. The Syndicate also purchased reinsurance protection through Axe Insurance PCC Ltd, a Securis group company, on normal terms for such reinsurance.

Directors' interests
Members of the ASL Board are also directors of other ANV Group companies that transact with ASL and/or the Syndicate, as follows:

- Adam Barker (resigned from ASL 31 October 2016) was a director of ANV Corporate Name Limited (resigned 31 October 2016);
- Janice Hamilton is a director of ANV Corporate Name Limited and ANV Central Bureau of Services Limited (appointed 7 November 2016); and
- Lynsey Cross (resigned from ASL 7 November 2016) is a director of ANV Central Bureau of Services Limited.

Neither the directors nor the active underwriter participate on the Syndicate.

Nicholas Pawson, a non-executive director of ASL is a non-executive director of Starr Managing Agents Limited (SMAL). SMAL is a member of the Starr group, which includes Starr Underwriting Agents Limited, a company which has delegated underwriting authority for specific classes of business for Syndicate 1861. There are a number of contracts between companies in the ASL group and companies in the SMAL group. All such contracts are negotiated on an arm's length basis. Both the boards of SMAL and ASL have been advised of the potential conflict of interest. Nicholas Pawson provided capital through a corporate entity to support underwriting on the 2013, 2014, 2015 and 2016 years of account of Syndicate 5820, another syndicate managed by ASL and a participant on a number of consortia led by Syndicate 1861. The consortia agreements were negotiated on an arm's length basis. The board of ASL has been advised of the potential conflict of interest.

Tony Hulse, a former non-executive director of ASL (resigned 7 November 2016), is a non-executive director of Apollo Syndicate Management Limited, the managing agency of Syndicate 1969 through which the Syndicate leads and participates on consortia arrangements with Syndicate 1969. The consortia agreements were negotiated on an arm's length basis. Both the boards of ASL and Apollo Syndicate Management Limited were advised of the potential conflict of interest.

26. Ultimate parent company

AmTrust Syndicate Limited's immediate parent is ANV Syndicate Management Limited ("ASML"), a company registered in England and Wales. The company's ultimate holding company is AmTrust Financial services, Inc. (AFS) a company incorporated in Delaware, USA and listed on the NASDAQ Stock Market. A copy of AFS's consolidated accounts can be obtained from that company's registered office, which is located at 59 Maiden Lane, 43rd Floor, New York, USA.