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ATRIUM

ANNUAL REPORT AND ACCOUNTS 2016

SYNDICATE 609

ATRIUM SYNDICATE 609 – ANNUAL ACCOUNTS

ATRIUM SYNDICATE 609 – UNDERWRITING YEAR ACCOUNTS

DIRECTORS

Paul O'Shea Non-Executive Chairman
James Lee Agency Managing Director
James Cox Compliance Director
Steve Cook Non-Executive Director
Toby Drysdale Executive Director
Andrew Elliott Non-Executive Director
Gordon Hamilton Non-Executive Director
Richard Harries Chief Executive Officer
Brendan Merriman Executive Director
Stephen Riley Non-Executive Director
Samit Shah Executive Director
Kirsty Steward Executive Director
Andrew Winyard Executive Director

ADVISORS

Auditor
KPMG LLP

Bankers
Barclays Bank Plc

Investment Managers
New England Asset Management Limited

Company Secretary
Martha Bruce
Bruce Wallace Associates Limited

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

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

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).

Separate underwriting year accounts for the closed 2014 year of account can be found on pages 35 to 66.

RESULTS

The Board of Directors are pleased to announce a profit of £36.2m for Syndicate 609 for calendar year 2016 (2015 – profit of £68.0m). The increased loss ratio across all of the open years of account, combined with a reduced contribution from favourable development on the back years, is driving the lower profit when compared with the 2015 result. Profits will be distributed by reference to the results of individual underwriting years.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The syndicate's principal activity during the year continued to be the transaction of general insurance and reinsurance business at Lloyd's.

RISK STRATEGY

Understanding its Risk Universe, the range of risks to which it is exposed, quantification and management of those risks enable the syndicate to determine the capital required to provide suitable security to its policyholders and aim to give the syndicate capital providers a return reflective of the risk they assume. Management of risk, return and capital is the core discipline of Atrium's business, against which all significant strategic and operational decisions are evaluated.

The Directors are responsible for setting the Risk Strategy for the syndicate and for oversight of its implementation. The syndicate's Risk Strategy is to assume underwriting risk in a number of classes of business where management believe that the risks and expected margins can be evaluated, and that the underwriting teams, supported by other Agency functions can operate with competitive advantages.

As part of the annual business planning process, the Board determines a Risk Policy Statement, which sets out the levels of planned risk taking, sometimes referred to as Risk Appetite, the basis on which these risk levels will be monitored, and the actions to be taken in the event of deviations from the planned levels. The Agency has a comprehensive governance framework within which the syndicate's exposures to these risks are managed. The governance framework is discussed further below.

BUSINESS AND PERFORMANCE EVALUATION

Syndicate 609 writes a diversified portfolio of classes of business that include Accident & Health, Aviation, Liability, Marine, Non Marine Direct & Facultative, Property & Casualty Binding Authorities, Reinsurance, Upstream Energy and Terrorism.

In underwriting a diversified portfolio of classes, using their skill, knowledge and historic claims data to evaluate the potential claims costs and to determine the appropriate premium, and also by taking a limited amount of market and credit risk in investing the cash-flows generated by this activity, the syndicate aims to reward its capital providers with results that are considered attractive relative to the risks assumed.

The key performance measure for the syndicate is Return on Capital, determined by comparing the total comprehensive income to the Syndicate's Economic Capital Assessment ('ECA') set by the Corporation of Lloyd's on agreement of the Syndicate's Solvency Capital Requirement ('uSCR') derived from its Internal Model, including Solvency II balance sheet adjustments. Return on Capital and the following Key Performance Indicators (KPI's) are monitored regularly by the Directors.

	2016 £m	2015 £m
Gross premiums written	**412.6**	383.2
Net earned premiums	**361.0**	346.6
Total Comprehensive Income	**36.2**	68.0
Loss ratio	**47%**	34%
Combined ratio	**92%**	80%
Investment return	**8.9**	3.9
Adjusted ECA	**187.9**	161.7
Return on adjusted ECA	**19%**	42%

The loss ratio for the year is 47% (2015 – 34%). The syndicate has continued to benefit from favorable development on the back years, contributing a saving of 11% on the loss ratio (2015 – 15 %).

REPORT OF THE DIRECTORS OF THE MANAGING AGENT CONTINUED

INVESTMENT PERFORMANCE

In a challenging investment environment the syndicate continues to adopt a defensive investment strategy investing in short-dated instruments taking exposure predominantly to highly rated debt. The investment objective is to achieve an investment return from taking a limited amount of market and credit risk in investing the cashflows generated by its principal activity which is underwriting. The table below compares our actual investment performance with the 2016 plan. Actual performance was above plan for the year due to a significant allocation to spread products which tightened during the year.

Investment Return	Plan	Actual
US Dollar	1.68%	1.74%
Canadian Dollar	0.45%	0.49%
Euro	(0.32)%	0.71%
Sterling	1.18%	2.23%

FOREIGN EXCHANGE

The effects of exchange rate movements are recorded in two elements. Transactions during the year, translated at each quarters average rate, and the translation of closing balances into the functional currency of US Dollars gave rise to foreign exchange losses which are identified within the non-technical account. Revaluation of all functional currency balances to the presentational currency of Sterling, at the closing rate of exchange on 31 December 2016, resulted in a foreign exchange gain and is included within Other Comprehensive Income.

The rates of exchange used in preparing the financial statements are as follows:

	2016		2015	
	Average	Closing	Average	Closing
US Dollar: £ Sterling	**1.36**	**1.23**	1.53	1.47
Euro: £ Sterling	**1.23**	**1.17**	1.38	1.36
Canadian Dollar: £ Sterling	**1.82**	**1.66**	1.95	2.04

PRINCIPAL RISKS AND UNCERTAINTIES

Governance

The Board recognises the critical importance of having efficient and effective risk management systems in place but also recognises that it can only mitigate risks, and not eliminate them entirely. The Board has developed its Own Risk and Solvency Assessment ('ORSA'), comprising the entirety of the processes that it uses to identify, assess, monitor and report the risks faced by its managed syndicate and to determine the capital necessary to mitigate retained risks. Critical to the efficacy of the ORSA are the effective operation of the Risk Management Framework ('RMF'), the Governance Structure and Atrium's Internal Model. The RMF incorporates the so-called "Three Lines of Defence" approach to risk management and reporting.

The RMF is the mechanism through which Atrium ensures it is implementing effective and enterprise wide risk management practices across its business. Key to Atrium's business is the management of risk, return and capital, against which all significant strategic and operational business decisions are evaluated. Over many years Atrium has established systems of governance and risk management that enable it to manage its business prudently.

The RMF is the articulation of these systems of risk management and governance and how the various elements interact.

The RMF encompasses the broad range of activities undertaken across the organisational hierarchy to ensure that risks are managed appropriately, spanning from the high level strategy set by the Board to the day to day underwriting decisions being made by syndicate staff and the controls in place to govern these. The RMF can be illustrated as follows:

Strategy: This describes Atrium's strategy setting process and explains how this filters down through the organisation; incorporating the Syndicate's Business Strategy, Risk Strategy, Business Plan, Risk Policy Statement and Risk Policies.

Business Activities: The individual syndicate and agency business units are responsible for implementing the strategy and business plans in accordance with the framework set out in the risk policies. The people, controls, management information, processes and senior management oversight in place across the business units serve as the "First Line of Defence" in the RMF.

Risk Governance Structure: The Board has established a Risk Governance Structure in order to ensure that risk is appropriately identified, monitored, managed and reported across the organisation; to review the activities of the business units; and to ensure that the RMF is effectively designed, implemented and governed. The Risk Governance Structure is comprised of the Executive Risk Committee ('ERC'), which fulfils the role of Atrium's Risk Management Function, and its three Risk Sub-Committees, discussed further below.

Independent Assurance: Atrium has in place a Compliance Function and an Actuarial Function in addition to the Risk Management Function (fulfilled by the ERC as referenced in the previous paragraph). These functions have specific responsibilities documented in their terms of reference and are staffed by fit and proper individuals with suitable qualifications, expertise and experience. The activities of these functions seek to provide the Board with assurance as to the appropriateness and effectiveness of the various elements of the RMF, the internal control environment, and the calculation of capital. There are a number of risk management tools which support independent assessment and reporting of risk. Taken together this Independent Assurance comprises the "Second Line of Defence".

Independent Oversight: The RMF provides for independent oversight and challenge via the operation of the Internal Audit Function as well as the Audit Committee and Risk Committee, both of which are Committees of the Board with membership comprised of Non Executive Directors. Together these three groups provide the "Third Line of Defence". The Risk Committee is charged with providing independent oversight and review of Atrium's RMF and its constituent parts whilst the Audit Committee, along with its broader responsibilities for the financial statements and financial reporting process, has oversight of internal controls and the Internal Audit Function.

Executive Risk Committee (ERC)

Atrium's Risk governance structure is comprised of the ERC and its three Risk Sub-Committees.

The ERC fulfils the Risk Management Function, and coordinates the risk management activities conducted for the Agency's managed syndicate. It is responsible for ensuring that the RMF and Internal Model, operates effectively, and for maintaining an aggregated and holistic view of risks to the syndicate and reporting on them to the Board, Committees and management as appropriate. It also ensures that there is robust and effective management, governance and oversight of Atrium's Internal Model which is used to set capital and is also widely used within the business.

To support delivery of the ERC's responsibilities, there are three Risk Sub-Committees, each being responsible for oversight, review and challenge of the activities of the syndicate and in particular ensuring that activities are within risk policies, that risks are suitably identified, monitored and reported, and that appropriate contingency plans are in place.

The principal risks to which the syndicate is exposed are discussed below together with the mitigation techniques adopted. For clarity, the risks are analysed by reference to the Risk Sub-Committees that have responsibility for the relevant risk area.

Insurance Risk Sub-Committee (IRSC)

The IRSC is responsible for oversight of insurance risk which includes underwriting, claims, reserving and reinsurance.

Underwriting risk is the risk that future losses are greater than allowed for within premiums. This could be due to natural fluctuations in claims frequencies and severities, changes in economic and judicial environments, anti-selection, inappropriate premium estimation or catastrophic loss activity.

Reserving risk is that we have insufficient provision for losses that have already occurred.

Underwriting risk is mitigated through numerous controls including underwriter peer review, authority limits, independent review of risks written, and purchase of an appropriate reinsurance programme. The Syndicate Business Forecast is completed annually and stipulates those classes of business and concentration by class that will be written during the forthcoming year. It is reviewed by the IRSC and approved by the Board prior to being submitted to the Lloyd's Franchise Board for approval. Actual performance during the year is monitored by reference to the Syndicate Business Forecast.

The risk of catastrophic claims is mitigated by the syndicate having a defined risk appetite which determines the net loss that it intends to retain for major catastrophe events and where deemed appropriate reinsurance is purchased to limit the impact of losses. Although the likelihood of occurrence is considered to be remote, there may be circumstances where the loss from a particular catastrophe event exceeds the net risk appetite perhaps due to the occurrence of a loss that has not been considered or where the reinsurance purchased proves to be insufficient.

Reserving risk is mitigated by the robust reserve adequacy exercise that is performed on a quarterly basis by the Actuarial Function and approved by the Board. The quarterly exercise involves a review of the paid and outstanding claims and an assessment of the appropriate provision for incurred but not reported (IBNR) claims. The reserves are considered by the IRSC and approved by the Board. The reserving is carried out based on historical development data, the claims environment and information provided by lawyers and third party claims adjusters. Although a thorough review is carried out the reserves carried may be more or less than adequate to meet the final cost of claims.

The IRSC also reviews the proposed reinsurance programme that is used to protect capital from frequency and severity of losses that may be sustained through underwriting the varied lines of business written. The review includes analysis of the reinsurance cover being purchased, assessment of the proposed counterparties and the results of the Internal Model.

Financial Risk Sub-Committee (FRSC)

The FRSC is responsible for oversight of financial risks and the steps taken to mitigate them as they arise from investments, asset/liability management, credit, liquidity and concentration risks. These risks are discussed further below.

Investment risk is the risk that the syndicate's earnings are affected by changes in the value of the investment portfolio; such changes in

REPORT OF THE DIRECTORS OF THE MANAGING AGENT CONTINUED

value may be driven by changes in the economic and political environment and by movements in interest and foreign exchange rates. Atrium manages the syndicate's investments in accordance with investment guidelines established by the Board that are reviewed on a regular basis. The FRSC monitors the performance of the external investment manager and the custodians responsible for the safekeeping of the investments, and reports regularly to the Board.

Asset/liability mis-match is the risk that the syndicate could incur a loss through inadequate matching of its investments with its insurance liabilities. Due to the short-tail nature of the majority of these liabilities, the syndicate does not seek to achieve a precise matching with the investment portfolio, instead developing an investment duration guideline that is broadly in line with the average payment profile of the liabilities. However, the syndicate substantially mitigates exposures to currency mis-match by investing premiums in the currency in which subsequent claims are most likely to be incurred and periodic rebalancing to ensure that these remain appropriate for the liabilities. The majority of the syndicate's business is denominated in US dollars and accordingly the substantial part of the investment portfolio is in US dollar denominated investments.

The key aspect of credit risk is the risk of default by one or more of the syndicate's reinsurers, their investment counterparties, or insurance intermediaries. Reinsurance is placed with those reinsurers that comply with the Atrium reinsurance policy. The exposure to credit risk in the investment portfolio is mitigated through adherence to the investment guidelines which require the syndicate's investment portfolios to be held in government and corporate debt with a high credit quality rating and with a relatively short duration, thus substantially mitigating the risk of sustaining losses from default. Exposure to intermediaries is mitigated by rigorous review of new intermediaries, contractual terms of business, regulated or segregated client accounts, monitoring of balances and credit control procedures.

Liquidity risk is the risk that the syndicate will not be able to meet its short term liabilities as they fall due, owing to a shortfall in cash. This risk is mitigated through holding invested funds in high credit quality and short duration investments, and cash-flow projections are also reviewed on a regular basis. The need for overdraft facilities in case of unprojected cash flow deficit is also reviewed regularly.

Concentration risk is the exposure to loss that could arise if the bulk of the amounts recoverable by the syndicate were dependent on a limited number of reinsurers, or if investments were restricted to limited numbers of counterparties or sectors. The risk is mitigated by restricting the permitted cessions to individual reinsurers for any one underwriting year and through the investment guidelines which limit exposure to individual investment counterparties and sectors.

Operational Risk Sub-Committee (ORSC)

The ORSC is responsible for oversight of the syndicate's exposures to operational, conduct and regulatory risks.

Operational risk includes exposure to loss from errors caused by people, processes or systems, group risk and emerging risks. The agency seeks to manage these risks by operating a control based environment which consists of documented procedures, segregation of duties and appropriate levels of review.

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency has a Compliance Officer and team who monitor regulatory developments and assess the impact on agency policy and maintain an ongoing open dialogue with both regulators and Lloyd's. They also carry out a compliance monitoring programme.

Conduct Risk is the risk that as part of writing and servicing insurance policies the syndicate fails to pay due regard to the interests of its customers. This is mitigated through the application of Atrium's conduct risk policy and procedures and through staff's adherence to Atrium's Code of Business Principles and Ethics. Atrium is committed to conducting its activities and stakeholder relationships in a fair and honest manner and the highest standard of conduct, professionalism and integrity is expected from all of its employees, with due regard paid at all levels of the organisation to ensuring fair outcomes for customers. Key controls include training of staff, embedding of the consideration of conduct risk as part of the business planning process and through the product life-cycle and Board and governance oversight and reporting. The ORSC fulfils the role of a "product oversight group" providing customer challenge and perspective to Atrium's products.

Regular reviews are performed by the Internal Audit department to ensure that deviations from the agency's policies, and control weaknesses, are identified and reported to the appropriate level of management and the Audit Committee when considered necessary.

BOARD AND MANAGEMENT CHANGES

In 2016

On 1 January 2016 a number of Board changes took effect. Richard Harries stepped down from his role as Active Underwriter for Syndicate 609 and was replaced by Toby Drysdale. Richard remains as the Chief Executive Officer of the Managing Agency and Atrium Group. On the same date, Steve Cook stepped down from his Executive Director role of Deputy Chairman of the Managing Agency and became a Non-Executive Director of Atrium Underwriters Limited.

In 2017

Nick Packer, an Atrium Non-Executive Director, stepped down from the Board of Atrium Underwriters Limited on 1 February 2017.

DIRECTORS & OFFICERS

The Directors & Officers of the managing agent who served during the year ended 31 December 2016 were as follows:

Martha Bruce, Bruce Wallace Associates Limited (Company Secretary)
Steve Cook
James Cox
Toby Drysdale (Active Underwriter 609)
Andrew Elliott
Gordon Hamilton
Richard Harries
James Lee
Brendan Merriman
Nick Packer (resigned effective 1 February 2017)
Stephen Riley
Paul O'Shea
Samit Shah
Kirsty Steward
Andrew Winyard

DIRECTORS' INTERESTS

Details of Directors' interests may be found in note 17 to the accounts.

RE-APPOINTMENT OF AUDITORS

The Board of Directors have re -appointed KPMG LLP as the syndicate auditors for the year ending 31 December 2017. KPMG LLP have indicated their willingness to continue in office as the syndicate auditor.

SYNDICATE ANNUAL GENERAL MEETING

As permitted under the Syndicate Meetings (Amendment No.1) Byelaw (No.18 of 2000) Atrium Underwriters Limited does not propose to hold a Syndicate Annual General Meeting of the members of Syndicate 609. Members may object to this proposal or the intention to reappoint auditors within 21 days of the issue of these financial statements. Any such objection should be addressed to James Cox, Compliance Director, at the registered office.

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 needed 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.

By order of the Board

James Lee
Agency Managing Director
1 March 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The managing agent is responsible for preparing the syndicate financial statements in accordance with applicable law and regulations.

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

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these financial statements, the 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 financial statements; and
- prepare the financial statements assuming there are no uncertainties surrounding the syndicate's ability to continue to write business in the future as required to provide a true and fair view.

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

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

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SYNDICATE 609

We have audited the financial statements of Syndicate 609 for the year ended 31 December 2016, as set out on pages 8 to 34. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

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

RESPECTIVE RESPONSIBILITIES OF THE MANAGING AGENT AND AUDITORS

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

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

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

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

OPINION ON OTHER MATTER PRESCRIBED BY THE INSURANCE ACCOUNTS DIRECTIVE (LLOYD'S SYNDICATE AND AGGREGATE ACCOUNTS) REGULATIONS 2008

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Jonathan Bell (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
6 March 2017

STATEMENT OF COMPREHENSIVE INCOME TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	£'000	2016 £'000	£'000	2015 £'000
Earned premiums, net of reinsurance					
Gross premiums written	5		**412,565**		383,231
Outward reinsurance premiums			**(45,309)**		(36,874)
Net premiums written			**367,256**		346,357
Change in the provision for unearned premiums:					
Gross amount		**(5,470)**		610	
Reinsurers' share		**(791)**		(356)	
Change in the net provision for unearned premiums			**(6,261)**		254
Earned premiums, net of reinsurance			**360,995**		346,611
Allocated investment return transferred from the non-technical account			**8,946**		3,910
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		**152,804**		150,544	
Reinsurers' share		**(9,337)**		(13,423)	
Net claims paid			**143,467**		137,121
Change in the provision for claims:					
Gross amount		**39,360**		(23,950)	
Reinsurers' share		**(12,752)**		6,168	
Change in the net provision for claims			**26,608**		(17,782)
Claims incurred, net of reinsurance			**170,075**		119,339
Net operating expenses	7		**166,203**		163,075
Balance on the technical account for general business			**33,663**		68,107

All operations relate to continuing activities.

STATEMENT OF COMPREHENSIVE INCOME NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	2016 £'000	2015 £'000
Balance on the technical account for general business		**33,663**	68,107
Investment income	10	**12,339**	11,033
Net unrealised losses on investments	10	**(2,105)**	(5,527)
Investment expenses and charges	10	**(1,288)**	(1,596)
Allocated investment return transferred to general business technical account		**(8,946)**	(3,910)
Foreign exchange losses		**(3,118)**	(3,229)
Profit for the financial year		**30,545**	64,878
Other comprehensive income			
Currency translation differences		**5,703**	3,082
Total comprehensive income for the year		**36,248**	67,960

All operations relate to continuing activities.

BALANCE SHEET: ASSETS

AT 31 DECEMBER 2016

	Notes	£'000	2016 £'000	£'000	2015 £'000
Investments	11		**580,170**		517,689
Reinsurers' share of technical provisions	15				
Provision for unearned premiums		**9,321**		8,820	
Claims outstanding	6	**96,149**		69,606	
			105,470		78,426
Debtors					
Debtors arising out of direct insurance operations	12	**119,681**		108,545	
Debtors arising out of reinsurance operations		**18,301**		14,311	
Other debtors		**239**		187	
			138,221		123,043
Other assets					
Cash at bank and in hand		**25,325**		25,874	
Overseas deposits		**72,825**		55,432	
			98,150		81,306
Prepayments and accrued income					
Accrued interest		**1,227**		166	
Deferred acquisition costs	13	**61,083**		52,627	
			62,310		52,793
Total assets			**984,321**		853,257

BALANCE SHEET: LIABILITIES

AT 31 DECEMBER 2016

	Notes	2016 £'000	2016 £'000	2015 £'000	2015 £'000
Capital and reserves					
Members' balances			**38,052**		69,037
Technical provisions	15				
Provision for unearned premiums		**196,561**		161,702	
Claims outstanding	6	**679,387**		540,543	
			875,948		702,245
Creditors					
Creditors arising out of direct insurance operations	16	**15,344**		20,368	
Creditors arising out of reinsurance operations		**22,844**		25,626	
Other creditors		**27,449**		22,224	
			65,637		68,218
Accruals and deferred income			**4,684**		13,757
Total liabilities			**984,321**		853,257

The Annual Report and Accounts were approved at a meeting of the Board of Directors of Atrium Underwriters Limited, on 1 March 2017 and were signed on its behalf by:

James Lee
Agency Managing Director
1 March 2017

Richard Harries
Chief Executive Officer
1 March 2017

STATEMENT OF CHANGES IN MEMBERS' BALANCES

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £'000	2015 £'000
Members' balances brought forward at 1 January	**69,037**	75,339
Profit for the financial year	**30,545**	64,878
Payments of profit to members' personal reserve funds	**(67,233)**	(74,262)
Other comprehensive income for the year	**5,703**	3,082
Members' balances carried forward at 31 December	**38,052**	69,037

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Profit for the financial year	**30,545**	64,878
Net realised and unrealised investment gains	**1,868**	5,987
Foreign exchange on balance due to members	**(357)**	(94)
Currency translation differences	**(9,705)**	(13,858)
Increase in net technical provisions	**39,534**	3,905
Decrease/(Increase) in debtors	**1,161**	(2,591)
Decrease in creditors	**(23,630)**	(8,435)
Net (purchase)/sale of shares and other variable yield securities and units in unit trusts	**(7,111)**	9,984
Net sale of debt securities and other fixed income securities	**42,273**	21,545
Net sale of loans secured by mortgage	**148**	4,398
Purchase of deposits with credit institutions	**(2)**	–
Decrease in deposits with ceding undertakings	**–**	942
Increase in overseas deposits	**(9,794)**	(5,786)
Decrease in deposits received from reinsurers	**–**	(218)
Net cash inflow from operating activities	**64,930**	80,657
Cash flows from financing activities		
Members' agents' fees	**(2,761)**	(2,662)
Transfer to members in respect of underwriting participations	**(64,077)**	(71,549)
Other	**(40)**	43
Net cash outflow from financing activities	**(66,878)**	(74,168)
Net (decrease)/increase in cash and cash equivalents	**(1,948)**	6,489
Cash and cash equivalents at beginning of financial year	**25,874**	19,345
Effect of foreign exchange rates on cash and cash equivalents	**1,399**	40
Cash and cash equivalents at end of financial year	**25,325**	25,874
Reconciliation to cash at bank and in hand		
Cash at bank and in hand at end of financial year	**25,325**	25,874
Cash equivalents	**–**	–
Cash and cash equivalents at end of financial year	**25,325**	25,874

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2016

1. BASIS OF PREPARATION

The syndicate is managed by Atrium Underwriters Limited which is incorporated in the United Kingdom. The address of its registered office is Room 790, Lloyd's, 1 Lime Street, London, EC3M 7DQ.

The syndicate's principal activity during the year continued to be the transaction of general insurance and reinsurance business at Lloyd's.

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the applicable Accounting Standards in the United Kingdom including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102) as issued in August 2014 and Financial Reporting Standard 103, "Insurance contracts" (FRS 103) as issued in March 2014.

The financial statements have been prepared on the historical cost basis with the exception of financial assets which are measured at fair value through profit or loss.

The syndicate has financial resources available that are in excess of its liabilities and, based on the latest cash flow forecasts for a period covering at least 12 months, are available to meet its liabilities as they fall due. As a consequence, the directors believe the syndicate is able to manage its business risks in the current economic climate and therefore the financial statements have been prepared on a going concern basis.

The financial statements are presented in Sterling (GBP). The Syndicate's functional currency is US dollars (USD).

2. USE OF JUDGMENTS 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 prospectively.

The measurement of the provision for claims outstanding involves judgments 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 balance sheet 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, judgment 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 in house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, 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 high degree of volatility 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 is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged. 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 principal accounting policies applied in the preparation of the syndicate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Insurance classification

The syndicate's contracts are classified at inception, for accounting purposes, as insurance contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to pay significant additional benefits above premiums received and interest earned thereon, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

Gross Premiums Written

Gross written premiums comprise the total premiums receivable for the whole period of cover under contracts incepting during the financial year, together with adjustments arising in the financial year to premiums receivable in respect of business written in previous financial years.

All gross premiums are shown gross of commission payable to intermediaries and are exclusive of taxes and duties levied thereon.

Unearned Premiums

Written premiums are recognised as earned income over the period of the policy on a time apportionment basis, having regard, where appropriate, to the incidence of the risk. Unearned premiums represent the proportion of premiums written that relate to unexpired terms of policies in force at the balance sheet date.

Reinsurance Premium Ceded

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

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.

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

These methods 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 volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

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

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

The directors consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, 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 methods used, and the estimates made, are reviewed regularly.

Deferred Acquisition Costs

Acquisition costs, comprising commission and other costs related to the acquisition of insurance contracts, are deferred to the extent that they are attributable to premiums unearned at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Unexpired Risks Provision

A provision for unexpired risks is made where claims and related expenses arising after the end of the financial period in respect of contracts concluded before that date, are expected to exceed the unearned premiums and premiums receivable under these contracts, after the deduction of any acquisition costs deferred. The provision for unexpired risks is calculated by reference to the classes of business which are managed together, after taking into account relevant investment returns.

Investment Return

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

Realised gains and losses on investments are calculated as the difference between sale proceeds and purchase price.

Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account. A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments support the underwriting business.

Foreign Currencies

The syndicate's functional currency is US dollars (USD), being the primary economic environment in which it operates. The syndicate's presentational currency is Sterling (GBP).

Transactions in foreign currencies are translated at the average rates of exchange for the period. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Differences arising on translation of foreign currency amounts relating to the insurance operations of the syndicate are included in the non-technical account.

In translating its results and financial position into the presentational currency, the syndicate translates all assets and liabilities at the closing rates of exchange and translates all income and expense items at average rates, with all resulting exchange gains and losses recognised in other comprehensive income.

Financial instruments

The syndicate has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

Basic financial assets, including deposits with credit institutions, debtors arising out of direct insurance and reinsurance operations, cash and cash equivalents and other debtors, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at fair value.

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at fair value and deposits with credit institutions are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date. Any surplus or deficit on any revaluation is recognised in the non-technical account.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Basic financial liabilities, including creditors arising from insurance operations that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the syndicate estimates the fair value by using a valuation technique. See note 11 for further information on the syndicate's valuation techniques.

At each reporting date the syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to 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 are included in the balance sheet under the heading 'other debtors'.

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

Pension Costs

The Atrium Group operates a defined contribution pension scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

Profit Commission

Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a deficit clause. Where profit commission is charged it is included within members' standard personal expenses within administrative expenses.

4. RISK AND CAPITAL MANAGEMENT

This note presents information about the nature and extent of insurance and financial risks to which the syndicate is exposed.

Risk Management Framework

The Board of Directors of the Managing Agent has overall responsibility for the establishment and oversight of the syndicate's risk management framework. The Board has established a Risk Governance Structure in order to ensure that risk is appropriately identified, monitored, managed and reported across the organisation; to review the activities of the business units; and to ensure that the Risk Management Framework is effectively designed, implemented and governed. The Risk Governance Structure is comprised of the Executive Risk Committee ('ERC'), which fulfils the role of Atrium's Risk Management Function, and its three Risk Sub-Committees. These are the Insurance Risk Sub-Committee ('IRSC'), the Financial Risk Sub-Committee ('FRSC') and the Operational Risk Sub-Committee ('ORSC'). The ERC reports regularly to the Board of Directors on its activities.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2016

4. RISK AND CAPITAL MANAGEMENT CONTINUED

Insurance risk management

The syndicate accepts insurance risk through its insurance contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. The syndicate is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts. The actual number and value of claims will vary from year to year and from the level estimated, possibly significantly.

The syndicate manages its risk via its underwriting and reinsurance strategy within an overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience. Exposures are managed by having documented underwriting limits and criteria. Reinsurance is purchased to mitigate the effect of potential loss to the syndicate from individual large or catastrophic events and also to provide access to specialist risks and to assist in managing capital. Reinsurance policies are written with approved reinsurers on either a proportional or excess of loss treaty basis. Where an individual exposure is deemed surplus to the syndicate's risk appetite additional facultative reinsurance is also purchased.

The IRSC oversees the management of reserving risk. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the review of claims development are all instrumental in mitigating reserving risk.

Our in house actuaries perform a reserving analysis on a quarterly basis liaising closely with underwriters, claims and reinsurance technicians. The aim of this exercise is to produce a probability-weighted average of the expected future cash outflows arising from the settlement of incurred claims. These projections include an analysis of claims development compared to the previous 'best estimate' projections. The output of the reserving analysis is reviewed by external consulting actuaries.

The IRSC performs a comprehensive review of the projections, both gross and net of reinsurance. Following this review the IRSC makes recommendations to the Managing Agent's Board of Directors of the claims provisions to be established. In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged.

Concentration of insurance risk: A concentration of risk may arise from a single insurance contract issued to a particular demographic type of policyholder, within a geographical location or to types of commercial business. The relative variability of the outcome is mitigated if there is a large portfolio of similar risks.

The concentration of insurance by the geographical location of the underlying risk is summarised below by reference to liabilities.

	Gross Claims Outstanding		Reinsurer's Share of Claims Outstanding		Net Claims Outstanding	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000	2016 £'000	2015 £'000
UK	**43,481**	30,811	**6,154**	3,968	**37,327**	26,843
Other EU Countries	**41,443**	31,892	**5,865**	4,107	**35,578**	27,785
US	**375,700**	302,164	**53,170**	38,909	**322,530**	263,255
Asia	**31,252**	28,649	**4,423**	3,689	**26,829**	24,960
Canada	**45,519**	25,946	**6,442**	3,341	**39,077**	22,605
Australia	**24,458**	18,378	**3,461**	2,367	**20,997**	16,011
Other	**117,534**	102,703	**16,634**	13,225	**100,900**	89,478
	679,387	540,543	**96,149**	69,606	**583,238**	470,937

4. RISK AND CAPITAL MANAGEMENT CONTINUED

The concentration of insurance by type of contract is summarised below by reference to liabilities.

	Gross Claims Outstanding 2016 £'000	Gross Claims Outstanding 2015 £'000	Reinsurer's Share of Claims Outstanding 2016 £'000	Reinsurer's Share of Claims Outstanding 2015 £'000	Net Claims Outstanding 2016 £'000	Net Claims Outstanding 2015 £'000
Accident and health	**24,532**	19,144	**3,871**	2,360	**20,661**	16,784
Motor (third party liability)	**205**	136	**–**	6	**205**	130
Motor (other classes)	**7,850**	8,842	**5**	8	**7,845**	8,834
Marine, aviation and transport	**147,505**	109,467	**43,579**	22,691	**103,926**	86,776
Fire and other damage to property	**115,487**	87,863	**6,853**	7,315	**108,634**	80,548
Third party liability	**289,925**	234,178	**32,280**	31,233	**257,645**	202,945
Credit and suretyship	**4,235**	1,796	**157**	146	**4,078**	1,650
Legal expenses	**3,427**	4,349	**1**	41	**3,426**	4,308
	593,166	465,775	**86,746**	63,800	**506,420**	401,975
Reinsurance	**86,221**	74,768	**9,403**	5,806	**76,818**	68,962
Total	**679,387**	540,543	**96,149**	69,606	**583,238**	470,937

Assumptions and sensitivities: The risks associated with the insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The syndicate uses several statistical and actuarial techniques based on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios.

The syndicate considers that the liability for insurance claims recognised in the balance sheet is adequate. However, actual experience will differ from the expected outcome.

A 5% increase or decrease in the loss ratios would have the following impact on total comprehensive income. For each sensitivity the impact of a change in a single factor is shown, with other assumptions unchanged.

	Total Comprehensive Income Impact 2016 £'000	Total Comprehensive Income Impact 2015 £'000
5% increase in net loss ratios	**(8,504)**	(5,967)
5% decrease in net loss ratios	**8,504**	5,967

Financial risk management

The syndicate is exposed to financial risk through its financial assets, reinsurance assets and policyholder liabilities. In particular the key financial risk is that proceeds from, or the valuation of, financial assets are not sufficient to fund the obligations arising from policies as they fall due. The syndicate monitors and manages the financial risks relating to the operations of the syndicate through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk.

Market risk: Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the syndicate in managing its market risk is to ensure risk is managed in line with the syndicate's risk appetite.

The syndicate has established policies and procedures in order to manage market risk and methods to measure it.

There were no material changes in the syndicate's market risk exposure in the financial year nor to the objectives, policies and processes for managing market risk.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2016

4. RISK AND CAPITAL MANAGEMENT CONTINUED

Foreign currency risk management

The syndicate undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

The syndicate has minimal exposure to currency risk as the syndicate's financial assets are primarily matched to the same currencies as its insurance contract liabilities. As a result, foreign exchange risk arises from other recognised assets and liabilities denominated in other currencies.

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	Other £'000	Total £'000
Investments	**28,484**	**59,059**	**446,605**	**46,022**	**–**	**580,170**
Reinsurers' share of technical provisions	**4,719**	**2,891**	**96,948**	**912**	**–**	**105,470**
Debtors	**16,977**	**9,446**	**106,050**	**5,748**	**–**	**138,221**
Other assets	**36,653**	**9,431**	**44,299**	**7,212**	**555**	**98,150**
Prepayments and accrued income	**12,701**	**3,022**	**41,524**	**5,063**	**–**	**62,310**
Total assets	**99,534**	**83,849**	**735,426**	**64,957**	**555**	**984,321**
Technical provisions	**86,672**	**49,785**	**696,545**	**42,946**	**–**	**875,948**
Creditors	**19,681**	**4,237**	**39,844**	**850**	**1,025**	**65,637**
Accruals and deferred income	**910**	**26**	**2,166**	**1,582**	**–**	**4,684**
Total liabilities	**107,263**	**54,048**	**738,555**	**45,378**	**1,025**	**946,269**
Net assets/(liabilities)	**(7,729)**	**29,801**	**(3,129)**	**19,579**	**(470)**	**38,052**

As at 31 December 2015	Sterling £'000	Euro £'000	US Dollar £'000	Can Dollar £'000	Other £'000	Total £'000
Investments	27,976	60,187	395,754	33,772	–	517,689
Reinsurers' share of technical provisions	3,941	2,409	71,675	401	–	78,426
Debtors	29,168	3,354	90,521	–	–	123,043
Other assets	34,354	3,619	37,749	4,257	1,327	81,306
Prepayments and accrued income	12,561	1,909	35,510	2,813	–	52,793
Total assets	108,000	71,478	631,209	41,243	1,327	853,257
Technical provisions	71,423	41,804	563,497	25,521	–	702,245
Creditors	15,499	25,209	21,456	5,549	505	68,218
Accruals and deferred income	1,114	155	11,204	1,284	–	13,757
Total liabilities	88,036	67,168	596,157	32,354	505	784,220
Net assets	19,964	4,310	35,052	8,889	822	69,037

The following table details the syndicate's sensitivity to a 10% increase and decrease in Sterling against US dollar and Euro. For each sensitivity the impact of change in a single factor is shown, with other assumptions unchanged.

	Total Comprehensive Income Impact 2016 £'000	2015 £'000
10% increase in GBP/US dollar exchange rate	**3,227**	(1,273)
10% decrease in GBP/US dollar exchange rate	**(3,227)**	1,273
10% increase in GBP/Euro exchange rate	**(4,532)**	(2,235)
10% decrease in GBP/Euro exchange rate	**4,532**	2,235

The syndicate's method for measuring sensitivity to currency rate fluctuations has not changed significantly over the financial year.

4. RISK AND CAPITAL MANAGEMENT CONTINUED

Interest rate risk management

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

Interest rate risk arises primarily from the syndicate's financial investments, cash and overseas deposits. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The FRSC monitors the duration of these assets on a regular basis. The syndicate has no significant concentration of interest rate risk. The syndicate manages this risk by adopting close asset/liability matching criteria, to minimise the impact of mismatches between asset and liability values arising from interest rate movements.

The following table details the syndicate's sensitivity to a 50 basis point increase and decrease in the yield curve. For each sensitivity the impact of change in a single factor is shown, with other assumptions unchanged.

	Total Comprehensive Income Impact 2016 £'000	2015 £'000
50 basis point increase	**(5,265)**	(5,232)
50 basis point decrease	**5,340**	4,502

The syndicate's method for measuring sensitivity to interest rate fluctuations has not changed significantly over the financial year.

Credit risk: Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the syndicate. The key areas of exposure to credit risk for the syndicate are in relation to its investment portfolio, reinsurance programme and amounts due from policyholders and intermediaries.

The objective of the syndicate in managing its credit risk is to ensure risk is managed in line with the syndicate's risk appetite. The syndicate has established policies and procedures in order to manage credit risk and methods to measure it.

There were no material changes in the syndicate's credit risk exposure in the financial year nor to the objectives, policies and processes for managing credit risk.

The syndicate has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The syndicate only transacts with entities that are rated the equivalent to investment grade and above.

This information is supplied by independent rating agencies where available and if not available the syndicate uses other publicly available financial information and its own trading records to rate its major policyholders and reinsurers.

The syndicate's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the FRSC annually. Furthermore, in certain instances, the syndicate receives deposits from its reinsurers which it holds under the terms of the reinsurance agreements.

Receivables consist of a large number of policyholders, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The syndicate does not have any significant credit risk exposure to any single counterparty or any group of counterparties. Concentration of credit did not exceed 5% of gross monetary assets at any time during the financial year. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets and reinsurance assets recorded in the financial statements represents the syndicate's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The syndicate monitors the credit risk in relation to its investment portfolio and reinsurance programme by monitoring external credit ratings for the investments and reinsurance assets held by the syndicate on a quarterly basis.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2016

4. RISK AND CAPITAL MANAGEMENT CONTINUED

The following table shows aggregated credit risk exposure for assets with external credit ratings. Reinsurance assets are reinsurers' share of outstanding claims and IBNR and reinsurance receivables. They are allocated below on the basis of ratings for claims paying ability.

As at 31 December 2016	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Not rated £'000	Total £'000
Investments	**141,080**	**118,932**	**231,227**	**83,288**	**5,643**	**–**	**580,170**
Reinsurers' share of technical provisions	**–**	**27,446**	**63,425**	**27**	**7**	**14,565**	**105,470**
Debtors	**–**	**1,308**	**136,913**	**–**	**–**	**–**	**138,221**
Other assets[1]	**44,777**	**7,570**	**36,337**	**3,447**	**–**	**6,019**	**98,150**
Accrued interest	**176**	**30**	**992**	**9**	**–**	**19**	**1,227**
Total	**186,033**	**155,286**	**468,894**	**86,771**	**5,650**	**20,603**	**923,238**

(1) Not rated other assets represent cash awaiting investment within our Lloyd's overseas deposits.

As at 31 December 2015	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Not rated £'000	Total £'000
Investments	101,628	134,707	201,295	80,059	–	–	517,689
Reinsurers' share of technical provisions	–	22,217	45,047	16	5	11,141	78,426
Debtors	–	–	123,033	10	–	–	123,043
Other assets	37,507	6,359	34,348	2,960	–	132	81,306
Accrued interest	110	21	26	10	–	–	166
Total	139,245	163,304	403,749	83,055	5	11,273	800,630

The following table shows the carrying value of debtors that are neither past due nor impaired, the ageing of assets that are past due but not impaired and assets that have been impaired. The factors considered in determining that the value of the assets have been impaired were: analysis of impairment, ageing of balances, past loss experience, current economic conditions and other relevant circumstances.

As at 31 December 2016	Neither past due nor impaired £'000	Past due less than 30 days £'000	Past due 31 to 60 days £'000	Past due 61 to 90 days £'000	Past due more than 90 days £'000	Past due and impaired £'000	Carrying amount £'000
Debtors arising out of direct insurance operations	**119,681**	**–**	**–**	**–**	**–**	**–**	**119,681**
Debtors arising out of direct reinsurance operations	**16,443**	**1,684**	**13**	**135**	**26**	**–**	**18,301**
Total	**136,124**	**1,684**	**13**	**135**	**26**	**–**	**137,982**

As at 31 December 2015	Neither past due nor impaired £'000	Past due less than 30 days £'000	Past due 31 to 60 days £'000	Past due 61 to 90 days £'000	Past due more than 90 days £'000	Past due and impaired £'000	Carrying amount £'000
Debtors arising out of direct insurance operations	108,545	–	–	–	–	–	108,545
Debtors arising out of direct reinsurance operations	13,159	915	237	_	_	–	14,311
Total	121,704	915	237	_	_	–	122,856

4. RISK AND CAPITAL MANAGEMENT CONTINUED

Liquidity risk management

Liquidity risk is the risk that the syndicate cannot meet its obligations associated with financial liabilities as they fall due. The syndicate has adopted an appropriate liquidity risk management framework for the management of the syndicate's liquidity requirements. The syndicate manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The syndicate is exposed to liquidity risk arising from clients on its insurance and investment contracts. In respect of catastrophic events there is liquidity risk from a difference in timing between claim payments and recoveries thereon from reinsurers. Liquidity management ensures that the syndicate has sufficient access to funds necessary to cover insurance claims, surrenders, withdrawals and maturing liabilities. In practice, most of the syndicate's assets are marketable securities which could be converted in to cash when required.

There were no material changes in the syndicate's liquidity risk exposure in the financial year nor to the objectives, policies and processes for managing liquidity risk.

In relation to the financial assets, the tables below have been drawn up based on the undiscounted contractual maturities of the assets including interest that will be earned on those assets except where the syndicate anticipates that the cash flow will occur in a different period. The table also shows the expected maturity profile of the syndicate's undiscounted obligations with respect to its financial liabilities and estimated cash flows of recognised insurance and participating investment contract liabilities. The table includes both interest and principal cash flows.

As at 31 December 2016	Less than 1 year £'000	1 – 3 years £'000	3 – 5 years £'000	More than 5 years £'000	Total £'000
Investments	**226,783**	**224,765**	**117,200**	**11,422**	**580,170**
Reinsurers' share of technical provisions	**10,985**	**60,430**	**24,441**	**9,614**	**105,470**
Debtors	**135,994**	**2,228**	**–**	**–**	**138,221**
Other assets	**67,236**	**27,941**	**2,896**	**76**	**98,150**
Accrued interest	**1,097**	**114**	**16**	**–**	**1,227**
Total	**442,095**	**315,478**	**144,553**	**21,112**	**923,238**
Technical provisions	**278,389**	**382,316**	**128,472**	**86,770**	**875,948**
Creditors	**63,523**	**2,114**	**–**	**–**	**65,637**
Accruals and deferred income	**1,490**	**–**	**3,195**	**–**	**4,684**
Total	**343,402**	**384,430**	**131,666**	**86,770**	**946,269**

As at 31 December 2015	Less than 1 year £'000	1 – 3 years £'000	3 – 5 years £'000	More than 5 years £'000	Total £'000
Investments	133,757	287,411	90,421	6,100	517,689
Reinsurers' share of technical provisions	32,829	24,925	10,636	10,036	78,426
Debtors	121,830	1,213	–	–	123,043
Other assets	56,093	23,609	1,494	110	81,306
Prepayments and accrued income	73	84	8	1	166
Total	344,582	337,242	102,559	16,247	800,630
Technical provisions	187,184	205,994	85,102	62,264	540,543
Creditors	67,218	1,000	–	–	68,218
Accruals and deferred income	10,638	–	3,119	–	13,757
Total	265,040	206,994	88,221	62,264	622,518

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2016

4. RISK AND CAPITAL MANAGEMENT CONTINUED

Capital Management

Capital framework at Lloyd's

The Society of Lloyd's (Lloyd's) is a regulated undertaking and subject to supervision by the Prudential Regulatory 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 the 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 609 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's SCR is determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to arrive at the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet, represent resources available to meet members' and Lloyd's capital requirements.

5. ANALYSIS OF UNDERWRITING RESULT

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

2016	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
Direct insurance:							
Accident and health	34,629	33,438	16,761	16,996	(313)	**(632)**	36,756
Motor (third party liability)	257	170	92	45	–	**33**	373
Motor (other classes)	10,353	8,746	4,060	3,376	88	**1,398**	12,630
Marine, aviation and transport	70,930	79,149	37,814	36,692	708	**5,351**	137,255
Fire and other damage to property	136,664	134,358	59,326	54,914	(9,445)	**10,673**	173,597
Third party liability	117,895	109,814	56,124	48,572	(3,176)	**1,942**	312,841
Credit and suretyship	5,464	4,935	1,400	1,547	(228)	**1,760**	6,582
Legal Expenses	814	779	(1,113)	294	(58)	**1,540**	3,806
	377,006	371,389	174,464	162,436	(12,424)	**22,065**	683,840
Reinsurance	35,559	35,706	17,700	10,116	(5,236)	**2,654**	86,638
Total	**412,565**	**407,095**	**192,164**	**172,552**	**(17,660)**	**24,719**	**770,478**

2015	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
Direct insurance:							
Accident and health	32,345	31,118	13,632	16,471	(671)	344	29,515
Motor (third party liability)	120	120	94	31	-	(5)	155
Motor (other classes)	8,994	8,932	8,374	3,334	99	(2,677)	11,438
Marine, aviation and transport	87,565	95,679	11,646	45,404	(17,556)	21,073	119,355
Fire and other damage to property	118,826	116,035	40,864	54,450	(4,235)	16,486	134,571
Third party liability	97,650	93,873	44,221	42,843	627	7,436	246,534
Credit and suretyship	4,208	3,996	(1,839)	1,238	(240)	4,357	2,834
Legal Expenses	1,297	2,722	608	1,220	14	908	4,585
	351,005	352,475	117,600	164,991	(21,962)	47,922	548,987
Reinsurance	32,226	31,366	8,994	6,493	(2,832)	13,047	74,832
Total	383,231	383,841	126,594	171,484	(24,794)	60,969	623,819

Commission on direct insurance gross premiums earned during 2016 was £113,595,000 (2015 – £103,945,000).

No gains or losses were recognised in profit or loss during the year on buying reinsurance (2015: nil).

All premiums were concluded in the UK.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2016

5. ANALYSIS OF UNDERWRITING RESULT CONTINUED

The geographical analysis of premiums by destination is as follows:

	2016 %	2015 %
UK	**6.4**	5.7
Other EU countries	**6.1**	5.9
US	**55.3**	55.9
Asia	**4.6**	5.3
Canada	**6.7**	4.8
Australia	**3.6**	3.4
Other	**17.3**	19.0
Total	**100.0**	100.0

6. CLAIMS OUTSTANDING

Reassessment of claims outstanding on underwriting years 2013 & prior (2015 – 2012 & prior) resulted in an improvement of £40.5m (2015 – £53.4m).

7. NET OPERATING EXPENSES

	2016 £'000	2015 £'000
Acquisition costs:		
Brokerage & Commission	**120,333**	109,009
Other acquisition costs	**17,653**	16,962
Change in deferred acquisition costs	**(2,277)**	(1,772)
Administrative expenses	**36,845**	44,057
	172,554	168,256
Reinsurance commissions receivable	**(6,351)**	(5,181)
	166,203	163,075

Administrative expenses include:

	2016 £'000	2015 £'000
Auditor's remuneration	**234**	227

Members' standard personal expenses (Lloyd's subscriptions, New Central Fund Contributions, managing agent's fees and profit commission) are included within administrative expenses and amount to £16,198,000 (2015 – £23,467,000).

8. STAFF NUMBERS AND COSTS

All staff are employed by Atrium Group Services Limited. The following amounts were recharged to the syndicate in respect of staff costs:

	2016 £'000	2015 £'000
Wages and salaries	**12,463**	11,671
Variable compensation	**6,055**	7,566
Social security costs	**1,060**	2,248
Other pension costs	**1,980**	1,827
	21,558	23,312

The average number of employees employed by Atrium Group Services Limited, but working for the syndicate during the year, analysed by category, was as follows:

	2016 Number	2015 Number
Management	**6**	7
Underwriting	**69**	62
Claims	**9**	9
Administration	**50**	49
	134	127

9. REMUNERATION OF THE DIRECTORS OF ATRIUM UNDERWRITERS LIMITED

The fourteen Directors of Atrium Underwriters Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	2016 £'000	2015 £'000
Directors' emoluments	**1,520**	1,644
Fees	**105**	175
	1,625	1,819

No other compensation was payable to key management personnel and charged to the syndicate.

The Active Underwriter received the following remuneration charged as a syndicate expense and included within directors' emoluments above:

	2016 £'000	2015 £'000
Emoluments	**230**	268

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2016

10. INVESTMENT RETURN

	2016 £'000	2015 £'000
Investment income:		
Income from investments	**11,355**	10,418
Gains on the realisation of investments	**984**	615
	12,339	11,033
Net unrealised losses on investments:		
Unrealised gains on investments	**1,891**	257
Unrealised losses on investments	**(3,996)**	(5,784)
	(2,105)	(5,527)
Investment expenses and charges:		
Investment management expenses, including interest	**(540)**	(521)
Losses on the realisation of investments	**(748)**	(1,075)
	(1,288)	(1,596)
Allocated investment return transferred to general business technical account	**8,946**	3,910

Calendar Year Investment Return

The table below presents the average amount of funds in the year per currency and analyses by currency the average investment yields in the year.

	2016 £'000	2015 £'000
Average syndicate funds available for investment during the year		
Sterling	**29,560**	43,668
US dollars	**365,086**	342,599
Canadian dollars	**36,669**	31,386
Euro	**60,597**	60,094
Combined	**491,911**	477,748
Aggregate gross investment return for the year	**8,509**	3,679
Gross calendar year investment return:	**%**	%
Sterling	**2.5**	0.8
US dollars	**2.0**	0.8
Canadian dollars	**0.8**	1.9
Euro	**1.0**	0.3
Combined	**1.8**	0.8

The average amount of syndicate funds available for investment has been calculated as the monthly average balance of investments.

The syndicate's portfolio consists of high quality investments which are held on a short duration basis.

11. FINANCIAL INVESTMENTS

	Fair value 2016 £'000	2015 £'000	Cost 2016 £'000	2015 £'000
Shares and other variable yield securities and units in unit trusts	**39,765**	27,287	**39,765**	27,287
Debt securities and other fixed income securities	**540,201**	490,105	**546,384**	496,638
Loans secured by mortgage	**166**	267	**169**	271
Deposits with credit institutions	**38**	30	**38**	30
	580,170	517,689	**586,356**	524,226

Shares and other variable yield securities and units in unit trusts represents the syndicate's holdings in collective investment schemes.

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

	2016 £'000	2016 %	2015 £'000	2015 %
Government/Government Agency	**148,770**	**27.5**	151,509	30.9
AAA/Aaa	**61,989**	**11.5**	41,077	8.4
AA/Aa	**52,545**	**9.7**	46,391	9.5
A	**187,966**	**34.9**	171,069	34.9
BBB	**83,288**	**15.4**	80,059	16.3
BB	**5,643**	**1.0**	–	–
	540,201	**100.0**	490,105	100.0

The syndicate's fund manager throughout 2016 was New England Asset Management (NEAM). The US dollar and Canadian dollar investments are managed by NEAM Inc, based in Farmington, US and the Euro portfolio are managed by NEAM Ltd, a sister company based in Dublin, Ireland.

Fair Value methodology

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the syndicate applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

To provide an indication about the reliability of the inputs used in determining fair value, the syndicate has classified its financial instruments into the three levels. An explanation of each level follows on the next page.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2016

11. FINANCIAL INVESTMENTS CONTINUED

Investments carried at fair value have been categorised using a fair value hierarchy as detailed below:

Fair value hierarchy:

Level 1 – Inputs to level 1 fair value are quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide pricing information on an on-going basis.

Level 2 – The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3 – Inputs to level 3 fair values are based on unobservable inputs for the assets at the last measurement date. If all significant inputs required to fair value an instrument are observable then the instrument is included in level 2, if not it is included in level 3. The syndicate did not have any such instruments.

The table below shows financial instruments carried at fair value through profit or loss grouped into the level in the fair value hierarchy into which each fair value measurement is categorised.

As at 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	**–**	**39,764**	**–**	**39,764**
Debt securities and other fixed income securities	**37,178**	**503,023**	**–**	**540,201**
Loans secured by mortgage	**–**	**166**	**–**	**166**
	37,178	**542,953**	**–**	**580,132**

As at 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	–	27,287	–	27,287
Debt securities and other fixed income securities	68,071	422,034	–	490,105
Loans secured by mortgage	–	267	–	267
	68,071	449,588	–	517,659

12. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2016 £'000	2015 £'000
Due from Intermediaries		
Due within one year	**119,242**	108,305
Due after one year	**439**	240
	119,681	108,545

13. DEFERRED ACQUISITION COSTS

The table below shows changes in deferred acquisition costs from the beginning of the period to the end of the period.

	2016 £'000	2015 £'000
Balance at 1 January	**52,627**	49,396
Incurred costs deferred	**109,845**	98,996
Amortisation	**(109,719)**	(97,224)
Effect of movements in exchange rates	**8,330**	1,459
Balance at 31 December	**61,083**	52,627

14. CLAIMS DEVELOPMENT

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than ten years. The top half of the table shows how the estimates of total claims for each underwriting year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

The cumulative claims estimates and payments for each underwriting year are translated into pounds sterling at the exchange rates prevailing at 31 December 2016 in all cases.

Analysis of claims development – gross	**2011 £'000**	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2016 £'000**	**Total £'000**
Estimate of ultimate gross claims:							
at end of underwriting year	299,826	266,298	267,895	265,471	285,622	294,457	
one year later	271,279	223,968	261,893	235,933	273,194		
two years later	262,296	206,162	235,925	218,729			
three years later	260,964	184,948	223,017				
four years later	251,701	174,211					
five years later	245,003						
Less gross claims paid	196,590	135,925	157,396	108,253	81,043	15,201	
Gross ultimate claims reserve	48,413	38,286	65,621	110,476	192,151	279,256	**734,203**
Gross ultimate claims reserve for 2010 & prior years							**122,765**
Gross unearned portion of ultimate claims							**(177,581)**
Gross claims reserve							**679,387**

Analysis of claims development – net	**2011 £'000**	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**2016 £'000**	**Total £'000**
Estimate of ultimate net claims:							
at end of underwriting year	257,652	237,185	239,897	236,979	252,731	254,464	
one year later	242,759	208,175	244,932	220,277	250,526		
two years later	225,676	193,624	217,279	208,281			
three years later	209,128	173,514	205,499				
four years later	200,025	164,080					
five years later	194,586						
Less net claims paid	167,824	128,064	145,789	104,903	78,167	14,675	
Net ultimate claims reserve	26,762	36,016	59,710	103,378	172,359	239,789	**638,014**
Net ultimate claims reserve for 2010 & prior years							**100,071**
Net unearned portion of ultimate claims							**(154,847)**
Net claims reserve							**583,238**

Amounts recognised in foreign currencies have been restated at the closing rates of exchange at the end of the reporting year.

The syndicate has taken advantage of the transitional provisions within FRS 103 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. FRS 103 was first applied for the 2015 financial year.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2016

15. TECHNICAL PROVISIONS

The table below shows changes in the insurance contract liabilities and assets from the beginning of the period to the end of the period.

Claims outstanding	2016 Gross provisions £'000	2016 Reinsurance assets £'000	2016 Net £'000	2015 Gross provisions £'000	2015 Reinsurance assets £'000	2015 Net £'000
Balance at 1 January	**540,543**	**69,606**	**470,937**	543,606	72,025	471,581
Claims and claims adjustment expenses for the year	**192,165**	**22,089**	**170,076**	126,593	7,255	119,338
Cash paid for claims settled in the year	**(152,804)**	**(9,337)**	**(143,467)**	(150,544)	(13,423)	(137,121)
Effect of movements in exchange rates	**99,483**	**13,791**	**85,692**	20,888	3,749	17,139
Balance at 31 December	**679,387**	**96,149**	**583,238**	540,543	69,606	470,937
Claims reported and claims adjustment expenses	**221,222**	**20,500**	**200,722**	189,029	18,044	170,985
Claims incurred but not reported	**458,165**	**75,649**	**382,516**	351,514	51,562	299,952
Balance at 31 December	**679,387**	**96,149**	**583,238**	540,543	69,606	470,937

Unearned Premiums	2016 Gross provisions £'000	2016 Reinsurance assets £'000	2016 Net £'000	2015 Gross provisions £'000	2015 Reinsurance assets £'000	2015 Net £'000
Balance at 1 January	**161,702**	**8,820**	**152,882**	157,217	8,884	148,333
Premiums written during the year	**412,565**	**45,309**	**367,256**	383,231	36,874	346,357
Premiums earned during the year	**(407,097)**	**(46,100)**	**(360,997)**	(383,841)	(37,230)	(346,611)
Effect of movements in exchange rates	**29,391**	**1,292**	**28,099**	5,095	292	4,803
Balance at 31 December	**196,561**	**9,321**	**187,240**	161,702	8,820	152,882

16. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2016 £'000	2015 £'000
Due from Intermediaries:		
Due within one year	**15,141**	20,352
Due after one year	**203**	16
	15,344	20,368

17. DISCLOSURES OF INTEREST

Atrium Underwriting Group Limited (AUGL) is a wholly owned subsidiary of Alopuc Ltd (a UK holding company) and Alopuc Ltd is in turn a wholly owned subsidiary of Northshore Holdings Ltd, a Bermudan company. The ultimate beneficial owners of Northshore are Enstar Group Ltd (Enstar) who hold approximately 57.5% economic interest and affiliates of Stone Point Capital LLC (Stone Point) who hold approximately 38.5% economic interest. The balance of shareholding is held by Dowling Capital Partners and Atrium management and staff.

17. DISCLOSURES OF INTEREST CONTINUED

AUGL is the holding company of the following wholly owned subsidiaries; Atrium Underwriters Limited (AUL), Atrium Underwriting Holdings Limited (AUHL), Atrium Insurance Agency Limited (AIAL), Atrium Group Services Limited (AGSL), Atrium Insurance Agency (Asia) Pte. Ltd (ASIA), Atrium Risk Management Services (Washington) Ltd (ARMS) and Atrium Risk Management Services (British Columbia) Ltd (ARMSBC) and Atrium 5 Limited. AGSL is the holding company of Atrium Nominees Limited. AUL is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is the managing agent of Syndicate 609. AUHL is the holding company of ten non-continuing Lloyd's corporate members.

AUGL participates on the managed syndicate through its corporate member subsidiary, Atrium 5 Limited whose participation on each year of account is as follows:

	2014 Capacity £m	2015 Capacity £m	2016 Capacity £m	2017 Capacity £m
Syndicate 609	106.8	107.1	107.1	**107.1**

Atrium 5 Limited's participation on the managed syndicate as % of syndicate capacity:

	Year of account			
	2014 %	2015 %	2016 %	2017 %
Syndicate 609	25.4	25.4	25.5	**25.5**

AIAL is a registered Lloyd's UK coverholder and is authorised and regulated by the Financial Conduct Authority. Syndicate 609 leads a binding authority granted to AIAL to underwrite Space business. Under the terms of the binding authority, fees and profit commission are payable by the syndicate to AIAL. Fee income of US$380,398 (2015 – US$448,000) is payable by the syndicate to AIAL in relation to premium earned in calendar year 2016. No Profit commission has been incurred by the syndicate (2015 – US$nil) during the calendar year 2016.

AGSL is a group service company. All UK employee contracts and, where possible, all material service provider contracts are held by AGSL. A service agreement is in place whereby AGSL provides all management services to all Atrium Group companies. Under the service agreement AGSL will charge the costs to each Atrium group company, including AUL, for the respective services provided.

ASIA carries on for its own account the business of insurance intermediation in Singapore, operating on the Lloyd's Asia platform. In this capacity it has been granted authority by Syndicate 609 to bind certain risks (including marine hull, energy, aviation and non-marine property risks) and has been approved by Lloyd's and the Monetary Authority of Singapore to act as a Lloyd's Singapore Service Company. Under the terms of the arrangement with Syndicate 609, ASIA charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of S$4,973,000 were paid by Syndicate 609 to ASIA in calendar year 2016 (2015 – S$4,016,000). ASIA ceased to write business in 2016 and is now in run-off.

ARMS is incorporated in Washington State, United States, and was established to support the syndicate strategy to maintain and grow it's North American direct portfolio and distribution network. ARMS charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of US$1,575,000 were paid by Syndicate 609 in the calendar year 2016 (2015 – US$1,502,000).

ARMSBC is incorporated in British Columbia, Canada, and was established to support the Syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMSBC charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of C$681,000 were paid by Syndicate 609 to ARMSBC in the calendar year 2016 (2015 – C$862,000).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2016

17. DISCLOSURES OF INTEREST CONTINUED

The Directors' participations on Syndicate 609 via Nomina No. 207 LLP (the staff LLP) are as follows (this includes any Director of AUL that served during 2016 and is a partner in the LLP):

	2014 £	2015 £	2016 £	2017 £
Steve Cook	39,103	46,359	–	**–**
James Cox	48,071	103,610	81,979	**74,170**
Toby Drysdale	31,887	37,723	23,590	**19,700**
Richard Harries	300,000	446,185	317,688	**277,611**
James Lee	–	45,527	42,197	**56,659**
Brendan Merriman	–	34,145	31,648	**32,004**
Samit Shah	46,729	67,984	50,717	**72,526**
Kirsty Steward	–	34,145	21,114	**21,461**

The capital requirement for the LLP increased for the 2016 year of account leading to reductions in individual participations.

AUL has made no loans to directors of the company during 2016 (2015 – nil). There were no loans outstanding at the balance sheet date.

Managing agency fees of £2,929,000 (2015 – £2,922,000) were paid by the syndicate to AUL. Profit commission of £9,854,000 (2015 – £18,049,000) is payable by the syndicate to AUL in relation to the 2016 calendar year result. The managing agent's agreement was amended in 2007 to enable managing agents to make payments on account of profit commission, prior to the closure of a year of account. Payments on account can be made when the syndicate transfers open year surpluses from the syndicate level premium trust funds to the members' personal reserve fund. No such payment was made in 2016 (2015 – £nil). Included within creditors is £18,031,000 (2015 – £19,893,000) in respect of profit commission payable to AUL on the 2014 year of account. £nil (2015 – £7,794,000) is included in accruals and payable after 12 months.

Given the insurance related activities undertaken within the broader Enstar group it is possible that transactions may be entered into between the Atrium managed syndicate and Enstar Group companies (including Starstone insurance group entities and the Starstone managed Lloyd's syndicates 1301 and 2008). Any such related party transactions are entered into by the Syndicate on a commercial basis and managed in accordance with the protocols set out in Atrium's Conflicts of Interest Policy.

Enstar representatives serving as Directors of AUL also hold Board positions at other Enstar group companies and these individuals disclose and manage any potential conflicts of interest in line with Atrium's usual practice.

ATRIUM

UNDERWRITING YEAR ACCOUNTS
FOR THE 2014 YEAR OF ACCOUNT

SYNDICATE 609

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of the Managing Agent presents their report at 31 December 2016 for the 2014 closed year of account.

This report is prepared in accordance with the Lloyd's Syndicate Accounting Byelaw (No 8 of 2006). It accompanies the underwriting year accounts prepared on an underwriting year basis of accounting as required by Statutory Instrument No 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations ("the 2008 Regulations").

REVIEW OF THE 2014 CLOSED YEAR OF ACCOUNT

The 2014 year of account closed with a profit of £74.3m after standard personal expenses (17.7% of capacity). There was an underwriting surplus of £27.3m attributable to business reinsured into the 2014 year of account, net of profit commission and other associated expenses. Further details on the underwriting results are included within the Underwriter's Report.

PRINCIPAL RISKS AND UNCERTAINTIES

Governance

The Board recognises the critical importance of having efficient and effective risk management systems in place but also recognises that it can only mitigate risks, and not eliminate them entirely. The Board has developed its Own Risk and Solvency Assessment ('ORSA'), comprising the entirety of the processes that it uses to identify, assess, monitor and report the risks faced by its managed syndicate and to determine the capital necessary to mitigate retained risks. Critical to the efficacy of the ORSA are the effective operation of the Risk Management Framework ('RMF'), the Governance Structure and Atrium's Internal Model. The RMF incorporates the so-called "Three Lines of Defence" approach to risk management and reporting.

The RMF is the mechanism through which Atrium ensures it is implementing effective and enterprise wide risk management practices across its business. Key to Atrium's business is the management of risk, return and capital, against which all significant strategic and operational business decisions are evaluated. Over many years Atrium has established systems of governance and risk management that enable it to manage its business prudently.

The RMF is the articulation of these systems of risk management and governance and how the various elements interact.

The RMF encompasses the broad range of activities undertaken across the organisational hierarchy to ensure that risks are managed appropriately, spanning from the high level strategy set by the Board to the day to day underwriting decisions being made by syndicate staff and the controls in place to govern these. The RMF can be illustrated as follows:

Strategy: This describes Atrium's strategy setting process and explains how this filters down through the organisation; incorporating the Syndicate's Business Strategy, Risk Strategy, Business Plan, Risk Policy Statement and Risk Policies.

Business Activities: The individual syndicate and agency business units are responsible for implementing the strategy and business plans in accordance with the framework set out in the risk policies.

The people, controls, management information, processes and senior management oversight in place across the business units serve as the "First Line of Defence" in the RMF.

Risk Governance Structure: The Board has established a Risk Governance Structure in order to ensure that risk is appropriately identified, monitored, managed and reported across the organisation; to review the activities of the business units; and to ensure that the RMF is effectively designed, implemented and governed. The Risk Governance Structure is comprised of the Executive Risk Committee ('ERC'), which fulfils the role of Atrium's Risk Management Function, and its three Risk Sub-Committees, discussed further below.

Independent Assurance: Atrium has in place a Compliance Function and an Actuarial Function in addition to the Risk Management Function (fulfilled by the ERC as referenced in the previous paragraph). These functions have specific responsibilities documented in their terms of reference and are staffed by fit and proper individuals with suitable qualifications, expertise and experience. The activities of these functions seek to provide the Board with assurance as to the appropriateness and effectiveness of the various elements of the RMF, the internal control environment, and the calculation of capital. There are a number of risk management tools which support independent assessment and reporting of risk. Taken together this Independent Assurance comprises the "Second Line of Defence".

Independent Oversight: The RMF provides for independent oversight and challenge via the operation of the Internal Audit Function as well as the Audit Committee and Risk Committee, both of which are Committees of the Board with membership comprised of Non Executive Directors. Together these three groups provide the "Third Line of Defence". The Risk Committee is charged with providing independent oversight and review of Atrium's RMF and its constituent parts whilst the Audit Committee, along with its broader responsibilities for the financial statements and financial reporting process, has oversight of internal controls and the Internal Audit Function.

Executive Risk Committee (ERC)

Atrium's risk governance structure is comprised of the ERC and its three Risk Sub-Committees.

The ERC fulfils the Risk Management Function, and coordinates the risk management activities conducted for the Agency's managed syndicate. It is responsible for ensuring that the RMF, and Internal Model, operates effectively, and for maintaining an aggregated and holistic view of risks to the syndicate and reporting on them to the Board, Committees and management as appropriate. It also ensures that there is robust and effective management, governance and oversight of Atrium's Internal Model which is used to set capital and is also widely used within the business.

To support delivery of the ERC's responsibilities, there are three Risk Sub-Committees, each being responsible for oversight, review and challenge of the activities of the syndicate and in particular ensuring that activities are within risk policies, that risks are suitably identified, monitored and reported, and that appropriate contingency plans are in place.

The principal risks to which the syndicate is exposed are discussed below together with the mitigation techniques adopted. For clarity, the risks are analysed by reference to the Risk Sub-Committees that have responsibility for the relevant risk area.

Insurance Risk Sub-Committee (IRSC)

The IRSC is responsible for oversight of insurance risk which includes underwriting, claims, reserving, and reinsurance.

Underwriting risk is the risk that future losses are greater than allowed for within premiums. This could be due to natural fluctuations in claims frequencies and severities, changes in economic and judicial environments, anti-selection, inappropriate premium estimation or catastrophic loss activity.

Reserving risk is the risk that we have insufficient provision for losses that have already occurred.

Underwriting risk is mitigated through numerous controls including underwriter peer review, authority limits, independent review of risks written, and purchase of an appropriate reinsurance programme. The Syndicate Business Forecast is completed annually and stipulates those classes of business and concentration by class that will be written during the forthcoming year. It is reviewed by the IRSC and approved by the Board prior to being submitted to the Lloyd's Franchise Board for approval. Actual performance during the year is monitored by reference to the Syndicate Business Forecast.

The risk of catastrophic claims is mitigated by the syndicate having a defined risk appetite which determines the net loss that it intends to retain for major catastrophe events and where deemed appropriate reinsurance is purchased to limit the impact of losses. Although the likelihood of occurrence is considered to be remote, there may be circumstances where the loss from a particular catastrophe event exceeds the net risk appetite perhaps due to the occurrence of a loss that has not been considered or where the reinsurance purchased proves to be insufficient.

Reserving risk is mitigated by the robust reserve adequacy exercise that is performed on a quarterly basis by the Actuarial Function and approved by the Board. The quarterly exercise involves a review of the paid and outstanding claims and an assessment of the appropriate provision for incurred but not reported (IBNR) claims. The reserves are considered by the IRSC and approved by the Board. The reserving is carried out based on historical development data, the claims environment and information provided by lawyers and third party claims adjusters. Although a thorough review is carried out the reserves carried may be more or less than adequate to meet the final cost of claims.

The IRSC also reviews the proposed reinsurance programmes that are used to protect capital from frequency and severity of losses that may be sustained through underwriting the varied lines of business written. The review includes analysis of the reinsurance cover being purchased, assessment of the proposed counterparties and the results of the Internal Model.

Financial Risk Sub-Committee (FRSC)

The FRSC is responsible for oversight of financial risks and the steps taken to mitigate them as they arise from investments, asset/liability management, credit, liquidity and concentration risks. These risks are discussed further below.

Investment risk is the risk that the syndicate's earnings are affected by changes in the value of the investment portfolio; such changes in value may be driven by changes in the economic and political environment and by movements in interest and foreign exchange rates. Atrium manages the syndicate's investments in accordance with investment guidelines established by the Board that are reviewed on a regular basis. The FRSC monitors the performance of the external investment manager and the custodians responsible for the safekeeping of the investments, and reports regularly to the Board.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT CONTINUED

Asset/liability mis-match is the risk that the syndicate could incur a loss through inadequate matching of its investments with its insurance liabilities. Due to the short-tail nature of the majority of these liabilities, the syndicate does not seek to achieve a precise matching with the investment portfolio, instead developing an investment duration guideline that is broadly in line with the average payment profile of the liabilities. However, the syndicate substantially mitigates exposure to currency mis-match by investing premiums in the currency in which subsequent claims are most likely to be incurred and periodic rebalancing to ensure that these remain appropriate for the liabilities. The majority of the syndicate's business is denominated in US dollars and accordingly the substantial part of the investment portfolio is in US dollar denominated investments.

The key aspect of credit risk is the risk of default by one or more of the syndicate's reinsurers, their investment counterparties, or insurance intermediaries. Reinsurance is placed with those reinsurers that comply with the Atrium reinsurance policy. The exposure to credit risk in the investment portfolio is mitigated through adherence to the investment guidelines which require the syndicate investment portfolios to be held in government and corporate debt with a high credit quality rating and with a relatively short duration, thus substantially mitigating the risk of sustaining losses from default. Exposure to intermediaries is mitigated by rigorous review of new intermediaries, contractual terms of business, regulated or segregated client accounts, monitoring of balances and credit control procedures.

Liquidity risk is the risk that the syndicate will not be able to meet its short term liabilities as they fall due, owing to a shortfall in cash. This risk is mitigated through holding invested funds in high credit quality and short duration investments, and cash-flow projections are also reviewed on a regular basis. The need for overdraft facilities in case of unprojected cash flow deficit is also reviewed regularly.

Concentration risk is the exposure to loss that could arise if the bulk of the amounts recoverable by the syndicate were dependent on a limited number of reinsurers, or if investments were restricted to limited numbers of counterparties or sectors. The risk is mitigated by restricting the permitted cessions to individual reinsurers for any one underwriting year and through the investment guidelines which limit exposure to individual investment counterparties and sectors.

Operational Risk Sub-Committee (ORSC)

The ORSC is responsible for oversight of the syndicate's exposures to operational, group, conduct and regulatory risks.

Operational risk includes exposure to loss from errors caused by people, processes or systems, group risk and emerging risks. The agency seeks to manage these risks by operating a control based environment which consists of documented procedures, segregation of duties and appropriate levels of review.

Regulatory risk is the risk of loss owing to a breach of regulatory requirements or failure to respond to regulatory change. The Agency has a Compliance Officer and team who monitor regulatory developments and assess the impact on agency policy. They also carry out a compliance monitoring programme.

Conduct Risk is the risk that as part of writing and servicing insurance policies the syndicate fails to pay due regard to the interests of its customers. This is mitigated through the application of Atrium's conduct risk policy and procedures and through staff's adherence to Atrium's Code of Business Principles and Ethics. Atrium is committed to conducting its activities and stakeholder relationships in a fair and honest manner and the highest standard of conduct, professionalism and integrity is expected from all of its employees, with due regard paid at all levels of the organization to ensuring fair outcomes for customers. Key controls include training of staff, embedding of the consideration of conduct risk as part of the business planning process and through the product life-cycle and Board and governance oversight and reporting. The ORSC fulfils the role of a "product oversight group" providing customer challenge and perspective to Atrium's products.

Regular reviews are performed by the Internal Audit department to ensure that deviations from the agency's policies, and control weaknesses, are identified and reported to the appropriate level of management and the Audit Committee when considered necessary.

BOARD AND MANAGEMENT CHANGES

In 2016

With effect from 1 January 2016 a number of Board changes took effect. Richard Harries stepped down from his role as Active Underwriter for Syndicate 609 and was replaced by Toby Drysdale. Richard became the Chief Executive Officer of the Managing Agency and remains the Chief Executive Officer of the Atrium Group. On the same date, Steve Cook stepped down from his Executive Director role of Deputy Chairman of the Managing Agency and became a Non-Executive Director of Atrium Underwriters Limited.

In 2017

Nick Packer, an Atrium Non-Executive Director, stepped down from the Board of Atrium Underwriters Limited on 1 February 2017.

DIRECTORS & OFFICERS

The Directors and Officers of the managing agent who served during the year ended 31 December 2016 were as follows:

Martha Bruce, Bruce Wallace Associates Limited (Company Secretary)
Steve Cook
James Cox
Toby Drysdale (Active Underwriter 609)
Andrew Elliott
Gordon Hamilton
Richard Harries
James Lee
Brendan Merriman
Nick Packer (resigned effective 1 February 2017)
Stephen Riley
Samit Shah
Paul O'Shea
Kirsty Steward
Andrew Winyard

DIRECTORS' INTERESTS

Details of Directors' interests can be found in Note 20 to the accounts.

RE-APPOINTMENT OF AUDITORS

The Board of Directors have re-appointed KPMG LLP as the syndicate auditors for the year ending 31 December 2017. KPMG LLP have indicated their willingness to continue in office as the syndicate auditor.

By order of the Board

James Lee
Agency Managing Director
1 March 2017

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the managing agent to prepare syndicate underwriting year accounts at 31 December in respect of any underwriting year which is being closed by reinsurance to close which give a true and fair view of the result of the underwriting year at closure. Detailed requirements in respect of the underwriting year accounts are set out in the Lloyd's Syndicate Accounting Byelaw (No 8 of 2005).

In preparing the syndicate underwriting year accounts, the managing agent is required to:

1. select suitable accounting policies which are applied consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable as between the members of the syndicate affected. In particular, the amount charged by way of premium in respect of the reinsurance to close shall, where the reinsuring members and reinsured members are members of the same syndicate for different years of account, be equitable as between them, having regard to the nature and amount of the liabilities reinsured;
2. take into account all income and charges relating to a closed year of account without regard to the date of receipt or payment;
3. make judgements and estimates that are reasonable and prudent; and
4. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the underwriting year accounts.

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 underwriting year accounts comply with the Regulations. It is also responsible for safeguarding the assets of the syndicate and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 609 2014 CLOSED YEAR OF ACCOUNT

We have audited the Syndicate underwriting year accounts for the 2014 year of account of Syndicate 609 for the three years ended 31 December 2016, as set out on pages 45 to 67. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, as modified by the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) and the Lloyd's Syndicate Accounting Byelaw.

This report is made solely to the members of the Syndicate, as a body, in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. Our audit work has been undertaken so that we might state to the Syndicate's members those matters we are required to state 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 and the Syndicate's members, as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE MANAGING AGENT AND THE AUDITOR

As explained more fully in the statement of managing agent's responsibilities set out on page 40, the Managing Agent is responsible for the preparation of the syndicate's underwriting year accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Syndicate underwriting year accounts in accordance with applicable 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 UNDERWRITING YEAR ACCOUNTS

An audit involves obtaining evidence about the amounts and disclosures in the syndicate underwriting year accounts sufficient to give reasonable assurance that the syndicate underwriting year accounts are free from material misstatements, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the managing agent; and the overall presentation of the syndicate underwriting year accounts. In addition, we read all the financial and non-financial information in the 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 consistencies we consider the implications for our report.

We have audited the syndicate underwriting accounts, which comprise of the statement of comprehensive income, the balance sheet as at 31 December 2016, statement of cashflows, and the related notes.

The underwriting year accounts relate to the 2014 year of account which has been closed by reinsurance to close at 31 December 2016. As a consequence of this, the residual risks to the members on the closed year have been minimised.

INDEPENDENT AUDITOR'S REPORT CONTINUED

OPINION ON SYNDICATE UNDERWRITING YEAR ACCOUNTS

- In our opinion the Syndicate underwriting year accounts:
- give a true and fair view of the profit for the 2014 closed year of account;
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

Jonathan Bell
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL
6 March 2017

UNDERWRITER'S REPORT

SYNDICATE 609

2014 YEAR OF ACCOUNT

Last year I suggested that 2014 Year of Account looked to be just as good as 2013, if not better, and I was correct. 2014 has been another spectacular year that has defied market conditions. We are reporting a profit of £74.3m after all personal expenses but before members' agents' fees. This represents a 17.7% return on stamp capacity. Favourable run-off of the back years contributed 6.5% to the result (9.1% last year).

Regarding the back year contribution; some class reviews have created releases, as well as favourable outcomes on specific losses. For example we were able to make a large release of reserves from the old 2012 account due to a favourable court ruling on a Hurricane Sandy related claim. I am also pleased to report that the loss experience on two poorly performing Cyber facilities has not been as bad as originally expected which has allowed us to release some of the reserves that we established last year. Regrettably we have had to top up reserves on an old Energy claim when a Danish court found against underwriters in December 2016.

On the pure year we recently increased our held reserves for a fire at a power plant in Guam.

Whilst the size of the back year contribution is large, it should not detract from an excellent pure year result.

The gross written income (net of acquisition costs) was £267m which is 64% of capacity.

2015 YEAR OF ACCOUNT

To date 2015 has experienced a much more normal loss pattern and accordingly is running much closer to plan than previous years. What has been noticeable is the number of losses that occurred in calendar year 2016 that affected the 2015 year of account.

The main natural catastrophe to hit 2015 was the earthquake in Taiwan in February 2016. The Fort McMurray wildfire loss (May 2016) also impacts 2015. Current overall reserves are C$4m; approximately 50% of this will fall back into 2015 year of account.

There have been an increased number of large risk losses that impact the 2015 year of account. These include Prince Fielder (impacts Accident & Health), the Kwame Nkrumah FPSO (Upstream Energy and Marine XL – 2016), Metrojet (Aviation), Troll Solution & Alpine Eternity (Marine & Energy Liability).

Final gross written income (net of acquisition costs) is expected to be £257m which is 61% of capacity. We are currently forecasting a profit of between 0% and 7.5% for the 2015 Year of Account.

2016 YEAR OF ACCOUNT

Market conditions continued to deteriorate during 2016 and several classes have experienced large decreases in income as we let go of under-priced business.

Final claims from Hurricane Matthew are expected to be modest – under $8m. The main classes impacted are Property Reinsurance, US Property Binders and Non Marine D&F. The largest risk loss from Hurricane Matthew is expected to be a hotel in Bahamas.

2016 large Risk losses to date include Carrie Fisher (Accident & Health), Space X (Marine XL) and LAMIA (Aviation).

Final gross written income (net of acquisition costs) is expected to be £286m which is 68% of capacity.

2017 YEAR OF ACCOUNT AND BEYOND

I would like to remind capital providers, once again, of the changing nature of Syndicate 609. Over the last few years our traditionally high margin lines of business are the ones that have really felt the rating pressures the most. Our income in some of these lines has reduced significantly. Our overall syndicate income has remained fairly constant as we have brought in new teams (two of which write International Liability business) and achieved some organic growth in our US P&C Binding Authority book – mostly due to our online capabilities through AuGold.

The decrease in MAT business written by Syndicate 609 is a direct consequence of the extraordinarily soft market conditions currently experienced in this sector. A good example is Aviation. All Aviation Underwriters should expect losses; not the headline grabbing catastrophic losses that thankfully seem to be fewer and fewer, but the day-to-day events such as hard landings and engine damage. What has become apparent is that the overall premium charged today is simply not able to cope with these expected attritional losses. Therefore Underwriters are relying on luck (hoping that they have not written the policies with losses) rather than building a portfolio of risks that can deliver a profitable return over time. We cannot accept this, and so our planned Aviation income for 2017 is less than 30% of its peak (in 2009) as we retrench and take the book back to its bare bones in this current climate. The Upstream Energy book is in a similar position. We simply do not believe that current pricing levels will cover a normal year's loss activity and so continue to cut the book back accordingly.

We write a number of classes where, in any given single year, we do not expect losses. For example we do not expect there to be a major earthquake in California in 2017; we do not expect there to be a major terrorist attack in central London. They may well occur – we hope not – but we do not expect them to occur. In these classes we can still make significant profit even though rates are low. However in most property and liability classes we do expect a certain volume of loss activity in the year, and here falling rates will directly impact planned profits. In certain classes rates have fallen to levels at which we cannot see a realistic expectation of future profit and so our income has dropped as we have non-renewed business.

UNDERWRITER'S REPORT CONTINUED

SYNDICATE 609

On a more positive note, we were delighted to welcome Robin Ungless and Hamish Rose to Atrium during 2016. They will bolster our offerings in Property Treaty Reinsurance. Their speciality is writing catastrophe and risk protections for London market property underwriters. Importantly they lead a lot of this business. Most Atrium Underwriters do not offer the largest line on the slip, nor do they blindly subscribe to broker's facilities. Therefore they have to encourage the brokers in with their technical skills – often a difficult task in a soft market. Being able to lead business, and offering a top class level of service is our strength.

I feel very privileged to have the role of Active Underwriter of such a prestigious syndicate. It is a daunting role in such a soft market. I am extremely lucky though in that we have a capital base that understands and appreciates that pushing for constant premium growth is not an objective in and of itself. Most importantly though we have underwriters and agency staff that are thoroughly professional and competent. I recently found an old quote from Christine Dandridge (written in 2006) "we are decisive, knowledgeable, offer good security and quick service". I feel that this could have been penned yesterday, as this is still the Syndicate 609 ethos. Given current market conditions, 2017 will be about survival and I feel confident that at Atrium we have the right people to make this possible.

Toby Drysdale

Toby Drysdale
Active Underwriter, Syndicate 609
1 March 2017

STATEMENT OF COMPREHENSIVE INCOME TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE 2014 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2016

	Notes	£'000
Syndicate allocated capacity		419,963
Earned premiums, net of reinsurance		
Gross premiums written	5	369,668
Outward reinsurance premiums		(37,355)
Earned premiums, net of reinsurance		332,313
Reinsurance to close premium received, net of reinsurance		
At transaction rates of exchange		262,006
Revaluation to closing rates of exchange		50,703
Reinsurance to close premium received, net of reinsurance at closing rates of exchange	6	312,709
		645,022
Allocated investment return transferred from the non-technical account		8,138
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		138,166
Reinsurers' share		(7,876)
		130,290
Reinsurance to close premium payable, net of reinsurance	7	324,772
		455,062
Net operating expenses	8	155,647
Balance on the technical account for general business	12	42,451

NON-TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE 2014 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2016

	Notes	£'000
Balance on the technical account for general business		42,451
Investment income	11	12,153
Net unrealised losses on investments	11	(2,677)
Investment expenses and charges	11	(1,338)
Allocated investment return transferred to general business technical account		(8,138)
Foreign exchange gains		5,052
Profit for the 2014 closed year of account		47,503
Other comprehensive income		26,757
Total comprehensive income for the 2014 closed year of account	15	74,260

BALANCE SHEET

FOR THE 2014 CLOSED YEAR OF ACCOUNT AT 31 DECEMBER 2016

	Notes	£'000
Assets		
Investments	13	424,533
Debtors	14	29,724
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	7	60,637
Other assets		
Cash at bank and in hand		22,155
Overseas deposits		43,210
Prepayments and accrued income		357
Total assets		580,616
Liabilities		
Amounts due to members	15	71,656
Reinsurance to close premium payable to close the account – gross amount	7	385,409
Creditors	16	120,457
Accruals and deferred income		3,094
Total liabilities		580,616

The 2014 closed year underwriting accounts were approved at a meeting of the Board of Directors of Atrium Underwriters Limited, and by the Active Underwriter, on 1 March 2017 and were signed on its behalf by:

James Lee
Agency Managing Director
1 March 2017

Toby Drysdale
Active Underwriter
1 March 2017

STATEMENT OF CASH FLOWS

FOR THE 2014 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2016

	Notes	£'000
Cash flows from operating activities		
Profit for the year of account		47,503
Net realised and unrealised investment gains		(4,541)
Currency translation differences		(47,374)
Decrease in debtors		(14,252)
Increase in creditors		(49,755)
Increase in overseas deposits		3,472
Net portfolio investment		3,426
Non-cash consideration for net RITC receivable	18	(238,492)
Net reinsurance to close premium payable		324,772
Net cash inflow from operating activities		**24,759**
Cash flows from financing activities		
Members' agents' fees paid on behalf of members		(2,604)
Net cash outflow from financing activities		**(2,604)**
Net increase in cash and cash equivalents		22,155
Cash and cash equivalents at 1 January 2014		–
Effect of foreign exchange rate changes		–
Cash and cash equivalents at end of financial year		**22,155**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 2014 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2016

1. BASIS OF PREPARATION

The syndicate is managed by Atrium Underwriters Limited which is incorporated in the United Kingdom. The address of its registered office is Room 790 Lloyd's, 1 Lime Street, London, EC3M 7DQ.

The syndicate's principal activity during the year continued to be the transaction of general insurance and reinsurance business at Lloyd's.

These financial statements have been prepared in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the Lloyd's Syndicate Accounting Byelaw (No. 8 of 2006), the applicable Accounting Standards in the United Kingdom including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102) as issued in August 2014 and Financial Reporting Standard 103, "Insurance contracts" (FRS 103) as issued in March 2014.

The financial statements have been prepared on this historical cost basis with the exception of financial assets which are measured at fair value through profit or loss.

The financial statements are presented in Sterling (GBP), which is the syndicate's presentational currency. The syndicate's functional currency is US Dollars (USD).

Members participate on a syndicate by reference to a year of account and each syndicate year of account is a separate annual venture. These accounts relate to the 2014 year of account which has been closed by reinsurance to close as at 31 December 2016.

Consequently the balance sheet represents the assets and liabilities of the 2014 year of account at the date of closure. The statement of comprehensive income and statement of cash flows reflect the transactions for that year of account during the three year period until closure.

These financial statements cover the three years from the date of inception of the 2014 year of account to the date of closure. Accordingly, this is the only reporting period and so corresponding amounts are not shown.

2. USE OF JUDGMENTS 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 prospectively.

The measurement of the provision for claims outstanding involves judgments 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 balance sheet 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, judgment 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 in house actuaries and reviewed by external consulting actuaries. These techniques generally involve projecting from past experience the development of claims over time in view of the likely ultimate claims to be experienced and for more recent underwriting, 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 high degree of volatility 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 is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged. Further information about the risk that the provision for claims outstanding could be materially different form the ultimate cost of claims settlement is included in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the syndicate financial statements are set out below.

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

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

Insurance classification

The syndicate's contracts are classified at inception, for accounting purposes, as insurance contracts. A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire. Insurance contracts are those contracts that transfer significant insurance risk, if and only if, an insured event could cause an insurer to pay significant additional benefits above premiums received and interest earned thereon, excluding scenarios that lack commercial substance. Such contracts may also transfer financial risk.

Gross Premiums Written

Gross premiums are allocated to years of account on the basis of the inception date of the policy. Gross premiums in respect of insurance contracts underwritten under a binding authority, line slip or consortium arrangement are allocated to the year of account corresponding to the calendar year of inception of the arrangement. Gross premiums are shown gross of brokerage payable and exclude taxes and duties levied on them. Gross premiums written are treated as fully earned.

Reinsurance Premium Ceded

Initial reinsurance premiums paid to purchase policies which give excess of loss protection are charged to the year of account in which the protection commences. Premiums for other reinsurances are charged to the same year of account as the risks being protected.

Claims Paid and Related Recoveries

Gross claims paid include internal and external claims settlement expenses and, together with reinsurance recoveries less amounts provided for in respect of doubtful reinsurers, are attributed to the same year of account as the original premium for the underlying policy. Reinstatement premiums payable in the event of a claim being made are charged to the same year of account as that to which the recovery is credited.

Reinsurance to Close Premium Payable

The net reinsurance to close premium is determined on the basis of estimated outstanding liabilities and related claims settlement costs (including claims incurred but not reported), net of estimated collectible reinsurance recoveries, relating to the closed year of account and all previous years of account reinsured therein. The estimate of claims outstanding is assessed on an individual case basis and is based on the estimated ultimate cost of all claims notified but not settled by the balance sheet date. It also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods.

These methods 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 volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified.

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

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

The directors consider that the estimates of gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, it is implicit in the estimation procedure that the ultimate liabilities will be at variance from the reinsurance to close premium so determined.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2014 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2016

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Foreign Currencies

The syndicate's functional currency is US dollars (USD), being the primary economic environment in which it operates. The syndicate's presentational currency is Sterling (GBP).

Transactions, other than reinsurance to close, in US Dollars, Canadian Dollars and Euros are translated at the average rates of exchange for the period. Reinsurance to close premiums receivable and payable, and underwriting transactions denominated in other foreign currencies, are included at the rate of exchange ruling at the transaction date. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Exchange differences are included in the non-technical account.

In translating its results and financial position into the presentational currency, the syndicate translates all assets and liabilities at the closing rates of exchange and translates all income and expense items at average rates, with all resulting exchange gains and losses recognised in other comprehensive income.

Where Canadian Dollars or Euros are sold or bought relating to the profit or loss of the closed underwriting account after 31 December, any exchange profit or loss arising is reflected in the underwriting account into which the liabilities of that year have been reinsured. Where United States Dollars relating to the profit or loss of a closed underwriting account are bought or sold by members on that year, any exchange profit or loss accrues to those members.

Investment Return

Investment return comprises all investment income, realised investment gains and losses and movements in unrealised gains and losses, net of investment expenses, charges and interest. The returns on the Joint Asset Trust Funds and Illinois Deposit are allocated to the year of account as notified by Lloyd's. The returns on other assets arising in a calendar year are apportioned to years of account open during the calendar year in proportion to the average funds available for investment on each year of account.

Realised gains and losses on investments carried at market value are calculated as the difference between sale proceeds and purchase price. Unrealised gains and losses on investments represent the difference between the valuation at the balance sheet date and their valuation at the previous balance sheet date, or purchase price, if acquired during the year, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment return is initially recorded in the non-technical account.

A transfer is made from the non-technical account to the general business technical account. Investment return has been wholly allocated to the technical account as all investments support the underwriting business.

Operating Expenses

Where expenses are incurred by or on behalf of the managing agent on the administration of the managed syndicate, these expenses are apportioned using varying methods depending on the type of expense. Expenses which are incurred jointly for the agency company and managed syndicate are apportioned between the agency company and the syndicate on bases depending on the amount of work performed, resources used and the volume of business transacted. Syndicate operating expenses are allocated to the year of account for which they are incurred.

Financial Instruments

The syndicate has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

Basic financial assets, including deposits with credit institutions, debtors arising out of direct insurance and reinsurance operations, cash and cash equivalents and other debtors, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at fair value.

Investments are stated at current value at the balance sheet date. For this purpose listed investments are stated at market value and deposits with credit institutions are stated at cost. Unlisted investments for which a market exists are stated at the average price at which they are traded on the balance sheet date or the last trading day before that date. Any surplus or deficit on any revaluation is recognised in the non-technical account.

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Basic financial liabilities, including creditors arising from insurance operations that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

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 is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the syndicate estimates the fair value by using a valuation technique. See note 13 for further information on the syndicate's valuation techniques.

At each reporting date the syndicate assesses whether there is objective evidence that financial assets not at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of an asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

An impairment loss recognised reduces directly the carrying amount of the impaired asset. All impairment losses are recognised in profit or loss. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

Taxation

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct basic rate income tax from trading income. In addition, all UK basic rate income tax deducted from syndicate investment income is recoverable by managing agents and consequently the distribution made to 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 are included in the balance sheet under the heading 'other debtors'.

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

Pension Costs

The Atrium Group operates a defined contribution scheme. Pension contributions relating to syndicate staff are charged to the syndicate and included within net operating expenses.

Profit Commission

Profit commission is charged by the managing agent at a rate of 20% of profit subject to the operation of a deficit clause. Where profit commission is charged, it is included within members' standard personal expenses within administrative expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

4. RISK AND CAPITAL MANAGEMENT

This note presents information about the nature and extent of insurance and financial risks to which the syndicate is exposed.

Risk Management Framework

The Board of Directors of the Managing Agent has overall responsibility for the establishment and oversight of the syndicate's risk management framework. The Board has established a Risk Governance Structure in order to ensure that risk is appropriately identified, monitored, managed and reported across the organisation; to review the activities of the business units; and to ensure that the Risk Management Framework is effectively designed, implemented and governed. The Risk Governance Structure is comprised of the Executive Risk Committee ('ERC'), which fulfils the role of Atrium's Risk Management Function, and its three Risk Sub-Committees. These are the Insurance Risk Sub-Committee ('IRSC'), the Financial Risk Sub-Committee ('FRSC') and the Operational Risk Sub-Committee ('ORSC'). The ERC reports regularly to the Board of Directors on its activities.

Insurance risk management

The syndicate accepts insurance risk through its insurance contracts where it assumes the risk of loss from persons or organisations that are directly subject to the underlying loss. The syndicate is exposed to the uncertainty surrounding the timing, frequency and severity of claims under these contracts. The actual number and value of claims will vary from year to year and from the level estimated, possibly significantly.

The syndicate manages its risk via its underwriting and reinsurance strategy within an overall risk management framework. Pricing is based on assumptions which have regard to trends and past experience. Exposures are managed by having documented underwriting limits and criteria. Reinsurance is purchased to mitigate the effect of potential loss to the syndicate from individual large or catastrophic events and also to provide access to specialist risks and to assist in managing capital. Reinsurance policies are written with approved reinsurers on either a proportional or excess of loss treaty basis. Where an individual exposure is deemed surplus to the syndicate's risk appetite additional facultative reinsurance is also purchased.

The IRSC oversees the management of reserving risk. The use of proprietary and standardised modelling techniques, internal and external benchmarking, and the review of claims development are all instrumental in mitigating reserving risk.

Our in house actuaries perform a reserving analysis on a quarterly basis liaising closely with underwriters, claims and reinsurance technicians. The aim of this exercise is to produce a probability-weighted average of the expected future cash outflows arising from the settlement of incurred claims. These projections include an analysis of claims development compared to the previous 'best estimate' projections. The output of the reserving analysis is reviewed by external consulting actuaries.

The IRSC performs a comprehensive review of the projections, both gross and net of reinsurance. Following this review the IRSC makes recommendations to the ERC and the Managing Agent's Board of Directors of the claims provisions to be established. In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged.

Concentration of insurance risk:

A concentration of risk may arise from a single insurance contract issued to a particular demographic type of policyholder, within a geographical location or to types of commercial business. The relative variability of the outcome is mitigated if there is a large portfolio of similar risks.

The concentration of insurance by the location of the underlying risk is summarised below by reference to liabilities.

	Gross Claims Outstanding £'000	Reinsurer's Share of Claims Outstanding £'000	Net Claims Outstanding £'000
UK	24,666	3,881	20,785
Other EU Countries	23,510	3,699	19,811
US	213,131	33,532	179,599
Asia	17,729	2,789	14,940
Canada	25,822	4,063	21,759
Australia	13,875	2,183	11,692
Other	66,676	10,490	56,186
Total	385,409	60,637	324,772

4. RISK AND CAPITAL MANAGEMENT CONTINUED

The concentration of insurance by type of contract is summarised below by reference to liabilities.

	Gross Claims Outstanding £'000	Reinsurer's Share of Claims Outstanding £'000	Net Claims Outstanding £'000
Accident and health	12,331	1,847	10,484
Motor (third party liability)	175	–	175
Motor (other classes)	3,832	5	3,827
Marine, aviation and transport	85,357	28,975	56,382
Fire and other damage to property	41,885	1,771	40,114
Third party liability	191,522	25,022	166,500
Credit and suretyship	2,240	71	2,169
Legal expenses	3,174	–	3,174
Reinsurance	44,893	2,946	41,947
Total	385,409	60,637	324,772

Assumptions and sensitivities

The risks associated with the insurance contracts are complex and subject to a number of variables which complicate quantitative sensitivity analysis. The syndicate uses several statistical and actuarial techniques based on past claims development experience. This includes indications such as average claims cost, ultimate claims numbers and expected loss ratios.

The syndicate considers that the liability for insurance claims recognised in the balance sheet is adequate. However, actual experience will differ from the expected outcome.

A 5% increase or decrease in the loss ratios would have the following impact on total comprehensive income. For each sensitivity the impact of a change in a single factor is shown, with other assumptions unchanged.

	Total comprehensive income impact £'000
5% increase in loss ratios	(22,753)
5% decrease in loss ratios	22,753

Financial risk management

The syndicate is exposed to financial risk through its financial assets, reinsurance assets and policyholder liabilities. In particular the key financial risk is that proceeds from, or the valuation of, financial assets are not sufficient to fund the obligations arising from policies as they fall due. The syndicate monitors and manages the financial risks relating to the operations of the syndicate through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (currency risk, interest rate risk and price risk), credit risk and liquidity risk.

Market risk

Market risk is the risk of adverse financial impact as a consequence of market movements such as currency exchange rates, interest rates and other price changes. Market risk arises due to fluctuations in both the value of assets held and the value of liabilities. The objective of the syndicate in managing its market risk is to ensure risk is managed in line with the syndicate's risk appetite.

The syndicate has established policies and procedures in order to manage market risk and methods to measure it.

There were no material changes in the syndicate's market risk exposure in the financial year nor to the objectives, policies and processes for managing market risk.

Foreign currency risk management

The syndicate undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. RISK AND CAPITAL MANAGEMENT CONTINUED

The syndicate has minimal exposure to currency risk as the syndicate's financial assets are primarily matched to the same currencies as its insurance contract liabilities. As a result, foreign exchange risk arises from other recognised assets and liabilities denominated in other currencies.

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

	Sterling £'000	Euro £'000	US Dollar £'000	Can Dollar £'000	Other £'000	Total £'000
Investments	28,484	46,273	319,926	29,850	–	424,533
Debtors	276	11,813	15,811	–	1,824	29,724
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	760	1,466	58,369	42	–	60,637
Other assets	25,827	7,389	28,673	3,088	388	65,365
Prepayments and accrued income	116	8	215	18	–	357
Total assets	55,463	66,949	422,994	32,998	2,212	580,616
Reinsurance to close premium payable to close the account – gross amount	33,651	24,120	317,395	10,243	–	385,409
Creditors	38,691	2,982	77,152	–	1,632	120,457
Accruals and deferred income	–	3	1,521	1,570	–	3,094
Total Liabilities	72,342	27,105	396,068	11,813	1,632	508,960
Net Assets/(Liabilities)	(16,879)	39,844	26,926	21,185	580	71,656

The following table details the syndicate's sensitivity to a 10% increase and decrease in Sterling against the US Dollar and Euro. For each sensitivity the impact of change in a single factor is shown, with other assumptions unchanged.

	Total comprehensive income impact £'000
10% increase in GBP/US Dollar exchange rate	(2,940)
10% decrease in GBP/US Dollar exchange rate	2,940
10% increase in GBP/Euro exchange rate	5,054
10% decrease in GBP/Euro exchange rate	(5,054)

The syndicate's method for measuring sensitivity to currency rate fluctuations has not changed significantly over the financial year.

Interest rate risk management

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

Interest rate risk arises primarily from the syndicate's financial investments, cash and overseas deposits. The risk of changes in the fair value of these assets is managed by primarily investing in short-duration financial investments and cash and cash equivalents. The FRSC monitors the duration of these assets on a regular basis. The syndicate has no significant concentration of interest rate risk. The syndicate manages this risk by adopting close asset/liability matching criteria, to minimise the impact of mismatches between asset and liability values arising from interest rate movements.

The following table details the syndicate's sensitivity to a 50 basis point increase and decrease in the yield curve. For each sensitivity the impact of change in a single factor is shown, with other assumptions unchanged.

	Total comprehensive income impact £'000
50 basis point increase	(3,810)
50 basis point decrease	3,865

The syndicate's method for measuring sensitivity to interest rate fluctuations has not changed significantly over the financial year.

4. RISK AND CAPITAL MANAGEMENT CONTINUED

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the syndicate. The key areas of exposure to credit risk for the syndicate are in relation to its investment portfolio, reinsurance programme and to a lesser extent amounts due from policyholders and intermediaries.

The objective of the syndicate in managing its credit risk is to ensure risk is managed in line with the syndicate's risk appetite. The syndicate has established policies and procedures in order to manage credit risk and methods to measure it.

There were no material changes in the syndicate's credit risk exposure in the financial year nor to the objectives, policies and processes for managing credit risk.

The syndicate has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The syndicate only transacts with entities that are rated the equivalent to investment grade and above.

This information is supplied by independent rating agencies where available and if not available the syndicate uses other publicly available financial information and its own trading records to rate its major policyholders and reinsurers.

The syndicate's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the FRSC annually. Furthermore, in certain instances, the syndicate receives deposits from its reinsurers which it holds under the terms of the reinsurance agreements.

Receivables consist of a large number of policyholders, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The syndicate does not have any significant credit risk exposure to any single counterparty or any company of counterparties. Concentration of credit did not exceed 5% of gross monetary assets at any time during the financial year. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets and reinsurance assets recorded in the financial statements represents the syndicate's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The syndicate monitors the credit risk in relation to its investment portfolio and reinsurance programme by monitoring external credit ratings for the investments and reinsurance assets held by the syndicate on a quarterly basis.

The following table shows aggregated credit risk exposure for assets with external credit ratings. Reinsurance assets are reinsurers' share of outstanding claims and IBNR and reinsurance receivables. They are allocated in the following table on the basis of ratings for claims paying ability.

4. RISK AND CAPITAL MANAGEMENT CONTINUED

As 31 December 2016	AAA £'000	AA £'000	A £'000	BBB £'000	BB £'000	Not rated £'000	Total £'000
Investments	101,958	87,659	172,017	60,924	1,975	–	424,533
Debtors	–	762	28,114	–	–	848	29,724
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	–	17,417	39,909	17	4	3,290	60,637
Other assets	26,567	4,492	28,690	2,045	–	3,571	65,365
Prepayments and accrued income	170	27	135	8	–	17	357
Total assets	128,695	110,357	268,865	62,994	1,979	7,726	580,616

The following table shows the carrying value of debtors that are neither past due nor impaired, the ageing of assets that are past due but not impaired and assets that have been impaired. The factors considered in determining that the value of the assets have been impaired were: analysis of impairment, ageing of balances, past loss experience, current economic conditions and other relevant circumstances.

As 31 December 2016	Neither past due nor impaired £'000	Past due less than 30 days £'000	Past due 31 to 60 days £'000	Past due 61 to 90 days £'000	Past due more than 90 days £'000	Past due and impaired £'000	Carrying amount £'000
Debtors arising out of direct insurance operations	2,877	–	–	–	–	–	2,877
Debtors arising out of direct reinsurance operations	3,140	855	21	19	–	–	4,035
	6,017	855	21	19	–	–	6,912

Liquidity risk management

Liquidity risk is the risk that the syndicate cannot meet its obligations associated with financial liabilities as they fall due. The syndicate has adopted an appropriate liquidity risk management framework for the management of the syndicate's liquidity requirements. The syndicate manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities. The syndicate is exposed to liquidity risk arising from clients on its insurance and investment contracts. In respect of catastrophic events there is liquidity risk from a difference in timing between claim payments and recoveries thereon from reinsurers. Liquidity management ensures that the syndicate has sufficient access to funds necessary to cover insurance claims, surrenders, withdrawals and maturing liabilities. In practice, most of the syndicate's assets are marketable securities which could be converted in to cash when required.

There were no material changes in the syndicate's liquidity risk exposure in the financial year nor to the objectives, policies and processes for managing liquidity risk.

In relation to the financial assets, the table below has been drawn up based on the undiscounted contractual maturities of the assets including interest that will be earned on those assets except where the syndicate anticipates that the cash flow will occur in a different period. The table also shows the expected maturity profile of the syndicate's undiscounted obligations with respect to its financial liabilities and estimated cash flows of recognised insurance and participating investment contract liabilities. The table includes both interest and principal cash flows.

4. RISK AND CAPITAL MANAGEMENT CONTINUED

As 31 December 2016	Less than 1 year £'000	1 – 3 years £'000	3 – 5 years £'000	More than 5 years £'000	Total £'000
Investments	115,356	231,098	72,882	5,197	424,533
Debtors	27,702	2,022	–	–	29,724
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	25,383	19,272	8,223	7,759	60,637
Other assets	47,022	16,579	1,719	45	65,365
Prepayments and accrued income	242	101	14	–	357
Total assets	215,705	269,072	82,838	13,001	580,616
Amounts due to members	71,656	–	–	–	71,656
Reinsurance to close premium payable to close the account – gross amount	133,463	146,874	60,678	44,394	385,409
Creditors	118,665	1,792	–	–	120,457
Accruals and deferred income	–	–	3,094	–	3,094
Total liabilities	323,784	148,666	63,772	44,394	580,616

Capital management

Capital framework at Lloyd's

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that Lloyd's would comply with the 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 609 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's SCR is determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to arrive at the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to ensure capital is sufficient to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2017 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

Accordingly all of the assets less liabilities of the syndicate, as represented in the members' balances reported on the balance sheet, represent resources available to meet members' and Lloyd's capital requirements.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2014 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2016

5. ANALYSIS OF UNDERWRITING RESULT

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

	Gross premiums written (note 1) £'000	Gross claims incurred (note 2) £'000	Gross operating expenses £'000	Reinsurance balance (note 3) £'000	Total £'000
Direct insurance:					
Accident and health	32,773	14,740	16,726	(943)	364
Motor (third party liability)	161	118	44	–	(1)
Motor (other classes)	8,223	5,769	3,173	99	(620)
Marine, aviation and transport	100,046	36,010	43,583	(4,678)	15,775
Fire and other damage to property	107,915	33,500	45,464	(8,631)	20,320
Third party liability	92,536	44,602	41,352	(3,538)	3,044
Credit and suretyship	3,582	1,023	1,099	(353)	1,107
Legal Expenses	4,566	1,149	2,105	(30)	1,282
	349,802	136,911	153,546	(18,074)	41,271
Reinsurance	19,866	3,468	7,465	(2,846)	6,087
	369,668	140,379	161,011	(20,920)	47,358
RITC received	307,523	383,196	–	57,442	(18,231)
Total	677,191	523,575	161,011	36,522	29,127

1. Gross premiums written are treated as fully earned.
2. Gross claims incurred comprises gross claims paid and gross reinsurance to close premium payable.
3. The reinsurance balance comprises reinsurance premiums ceded less reinsurance recoveries on claims paid and reinsurance recoveries anticipated on reinsurance to close payable.
4. All premiums are concluded in the UK.

6. REINSURANCE TO CLOSE PREMIUM RECEIVABLE

	£'000
Gross notified outstanding claims	117,782
Reinsurance recoveries anticipated	(14,139)
Net notified outstanding claims	103,643
Provision for gross claims incurred but not reported	191,003
Reinsurance recoveries anticipated	(32,640)
Provision for net claims incurred but not reported	158,363
Reinsurance to close premium receivable, net of reinsurance at transaction rates of exchange	262,006
Revaluation to closing rates of exchange	45,517
Reinsurance to close premium receivable, net of reinsurance at closing rates of exchange	307,523

7. REINSURANCE TO CLOSE PREMIUM PAYABLE

	£'000
Gross notified outstanding claims	143,475
Reinsurance recoveries anticipated	(16,194)
Net notified outstanding claims	127,281
Provision for gross claims incurred but not reported	241,934
Reinsurance recoveries anticipated	(44,443)
Provision for net claims incurred but not reported	197,491
Reinsurance to close premium payable, net of reinsurance	324,772

The reinsurance to close is effected to the 2015 year of account of Syndicate 609.

8. NET OPERATING EXPENSES

	£'000
Acquisition costs:	
Brokerage & Commission	102,418
Other acquisition costs	17,999
	120,417
Administrative expenses	40,594
	161,011
Reinsurance commissions receivable	(5,364)
	155,647

Administrative expenses include:

	£'000
Auditors' remuneration	
Audit services	240
Managing agent's profit commission	16,135

Members' standard personal expenses are included within administrative expenses and amount to £21,865,000.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2014 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2016

9. STAFF NUMBERS AND COSTS

All staff are employed by Atrium Group Services Limited. The following amounts were recharged to the syndicate in respect of salary costs:

	£'000
Wages and salaries	18,183
Social security costs	1,696
Other pension costs	1,768
	21,647

The average number of employees employed by Atrium Group Services Limited, but working for the syndicate during the three years, was as follows:

	Number
Management	6
Underwriting	72
Claims	10
Administration	50
	138

10. REMUNERATION OF THE DIRECTORS OF ATRIUM UNDERWRITERS LIMITED

The fourteen Directors of Atrium Underwriters Limited received the following aggregate remuneration charged to the syndicate and included within net operating expenses:

	£'000
Remuneration	1,816

No other compensation was payable to key management personnel and charged to the syndicate.

The Active Underwriter received the following remuneration charged as a syndicate expense:

	£'000
Remuneration	277

11. INVESTMENT RETURN

	£'000
Investment income:	
Income from investments	11,222
Gains on the realisation of investments	931
	12,153
Net unrealised losses on investments:	
Unrealised gains on investments	1,689
Unrealised losses on investments	(4,366)
	(2,677)
Investment expenses and charges:	
Investment management expenses, including interest	(546)
Losses on the realisation of investments	(792)
	(1,338)
Allocated investment return transferred to the technical account	8,138

12. BALANCE ON TECHNICAL ACCOUNT

	£'000
Balance excluding investment return and operating expenses	
Profit attributable to business allocated to the 2014 pure year of account	148,284
Profit attributable to business reinsured into the 2014 year of account	36,490
	184,774
Allocated investment return transferred from the non-technical account	8,138
Net operating expenses	(155,647)
	37,265

13. INVESTMENTS

	Fair value £'000	Cost £'000
Shares and other variable yield securities and units in unit trusts	27,603	27,603
Debt securities and other fixed income securities	396,787	401,290
Loans secured by mortgage	116	119
Deposits with credit institutions	27	27
	424,533	429,039

Shares and other variable yield securities and units in unit trusts represents the syndicate's holdings in collective investment schemes.

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

	Fair value £'000	%
Government/Government Agency	40,390	10.2
AAA/Aaa	71,525	18.0
AA/Aa	77,586	19.6
A	144,387	36.3
BBB	60,924	15.4
BB	1,975	0.5
	396,787	100.0

Fair Value methodology

Fair value is the amount for which an asset or liability could be exchanged between willing parties in an arm's length transaction. Fair values are determined at prices quoted in active markets. In some instances, such price information is not available for all instruments and the syndicate applies valuation techniques to measure such instruments. These valuation techniques make maximum use of market observable data but in some cases management estimate other than observable market inputs within the valuation model. There is no standard model and different assumptions would generate different results.

To provide an indication about the reliability of the inputs used in determining fair value, the syndicate has classified its financial instruments into the three levels. Investments carried at fair value have been categorised using a fair value hierarchy.

An explanation of each level and the fair value hierarchy can be found on the next page.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2014 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2016

13. INVESTMENTS CONTINUED

Fair value hierarchy

Level 1 – Inputs to level 1 fair value are quoted prices (unadjusted) in active markets for identical assets. An active market is one in which transactions for the asset occurs with sufficient frequency and volume to provide pricing information on an on-going basis.

Level 2 – The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3 – Inputs to level 3 fair values are based on unobservable inputs for the assets at the last measurement date. If all significant inputs required to fair value an instrument are observable then the instrument is included in level 2, if not it is included in level 3. The syndicate did not have any such instruments.

The table below shows financial assets and liabilities carried at fair value through profit or loss grouped into the level in the fair value hierarchy into which each fair value measurement is categorised.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Shares and other variable yield securities and units in unit trusts	–	27,603	–	27,603
Debt securities and other fixed income securities	27,308	369,479	–	396,787
Loans secured by mortgage	–	116	–	116
	27,308	397,198	–	424,506

14. DEBTORS

	£'000
Arising out of direct insurance operations	
Due from intermediaries	2,877
Arising out of reinsurance operations	4,035
Other	22,812
	29,724

15. AMOUNTS DUE TO MEMBERS

	£'000
Profit for the 2014 closed year of account	74,260
Members' agents' fee advances	(2,604)
Distributions to members to date	–
Amounts due to members at 31 December 2016	71,656

16. CREDITORS

	£'000
Arising out of direct insurance operations	
Due to intermediaries	13,104
Arising out of reinsurance operations	9,938
Managing agent's profit commission	18,031
Other	79,384
	120,457

Other creditors include inter year loans of £72,825,000.

17. CLAIMS DEVELOPMENT

The following tables show the development of claims over a period of time on both a gross and net of reinsurance basis. FRS 103 requires that claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payment, but need not go back more than ten years. The top half of the table shows how the estimates of total claims for each underwriting year develop over time. The lower half of the table reconciles the cumulative claims to the amount appearing in the balance sheet.

The cumulative claims estimates and payments for each underwriting year are translated into pounds sterling at the exchange rates prevailing at 31 December 2016 in all cases.

Analysis of claims development – gross	2011 £'000	2012 £'000	2013 £'000	2014 £'000	Total £'000
Estimate of ultimate gross claims					
at end of underwriting year	299,826	266,298	267,895	265,471	
one year later	271,279	223,968	261,893	235,933	
two years later	262,296	206,162	235,925	218,577	
three years later	260,964	184,948	223,017		
four years later	251,701	174,211			
five years later	245,003				
Less gross claims paid	196,590	135,925	157,396	108,253	
Gross ultimate claims reserve	48,413	38,286	65,621	110,324	262,644
Gross ultimate claims reserve for 2010 & prior years					122,765
Gross claims reserve					385,409

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2014 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2016

17. CLAIMS DEVELOPMENT CONTINUED

Analysis of claims development - net	2011 £'000	2012 £'000	2013 £'000	2014 £'000	Total £'000
Estimate of ultimate net claims					
at end of underwriting year	257,652	237,185	239,897	236,979	
one year later	242,759	208,175	244,932	220,277	
two years later	225,676	193,624	217,279	208,144	
three years later	209,128	173,514	205,499		
four years later	200,025	164,080			
five years later	194,586				
Less net claims paid	167,824	128,064	145,789	104,903	
Net ultimate claims reserve	26,762	36,016	59,710	103,241	225,729
Net ultimate claims reserve for 2010 & prior years					99,043
Net claims reserve					324,772

18. CONSIDERATION FOR NET RITC RECEIVABLE

Consideration for net RITC receivable comprised:

	£'000
Non-cash consideration:	
Portfolio investments	359,950
Deposits with credit institutions	21
Overseas deposits	35,998
Debtors	15,829
Creditors	(173,306)
	238,492
Cash	23,514
	262,006

19. MOVEMENT IN OPENING AND CLOSING PORTFOLIO INVESTMENTS NET OF FINANCING

Movement in Cash, Portfolio Investments and Financing

	At 1 Jan 2014 £'000	Cash flow £'000	Received as consideration for net RITC receivable £'000	Changes to market value and currencies £'000	At 31 Dec 2016 £'000
Cash at bank and in hand	–	(1,359)	23,514	–	22,155
Overseas deposits	–	(3,472)	35,998	10,684	43,210
Portfolio investments:					
Shares and other variable yield securities and units in unit trusts	–	8,130	16,231	3,242	27,603
Debt securities and other fixed income securities	–	(4,368)	343,497	57,658	396,787
Loans secured by mortgage	–	(7,186)	222	7,080	116
Deposits with credit institutions	–	(2)	21	8	27
Total portfolio investments	–	(3,426)	359,971	67,988	424,533
Total cash, portfolio investments and financing	–	(8,257)	419,483	78,672	489,898

The changes to market values and currencies include £74.1m relating to currency revaluation of non-Sterling denominated investments and deposits.

20. DISCLOSURES OF INTEREST

Atrium Underwriting Group Limited (AUGL) is a wholly owned subsidiary of Alopuc Ltd (a UK holding company) and Alopuc Ltd is in turn a wholly owned subsidiary of Northshore Holdings Ltd, a Bermudan company. The ultimate beneficial owners of Northshore are Enstar Group Ltd (Enstar) who hold approximately 57.5% economic interest and affiliates of Stone Point Capital LLC (Stone Point) who hold approximately 38.5% economic interest. The balance of shareholding is held by Dowling Capital Partners and Atrium management and staff.

AUGL is the holding company of the following wholly owned subsidiaries; Atrium Underwriters Limited (AUL), Atrium Underwriting Holdings Limited (AUHL), Atrium Insurance Agency Limited (AIAL), Atrium Group Services Limited (AGSL), Atrium Insurance Agency (Asia) Pte. Ltd (ASIA), Atrium Risk Management Services (Washington) Ltd (ARMS) and Atrium Risk Management Services (British Columbia) Ltd (ARMSBC) and Atrium 5 Limited. AGSL is the holding company of Atrium Nominees Limited. AUL is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is the managing agent of Syndicate 609. AUHL is the holding company of ten non-continuing Lloyd's corporate members.

AUGL participates on the managed syndicate through its corporate member subsidiary, Atrium 5 Limited whose participation on each year of account is as follows:

	2014 Capacity £m	2015 Capacity £m	2016 Capacity £m	2017 Capacity £m
Syndicate 609	106.8	107.1	107.1	**107.1**

Atrium 5 Limited's participation on the managed syndicate as % of syndicate capacity:

	Year of account			
	2014 %	2015 %	2016 %	2017 %
Syndicate 609	25.4	25.4	25.5	**25.5**

AIAL is a registered Lloyd's UK coverholder and is authorised and regulated by the Financial Conduct Authority. Syndicate 609 leads a binding authority granted to AIAL to underwrite Space business. Under the terms of the binding authority, fees and profit commission are payable by the syndicate to AIAL. Fee income of US$1,346,000 was paid by the syndicate to AIAL in relation to premium earned on the 2014 year of account. No profit commission is due in relation to the 2014 year of account.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2014 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2016

20. DISCLOSURES OF INTEREST CONTINUED

AGSL is a group service company. All UK employee contracts and, where possible, all material service provider contracts are held by AGSL. A service agreement is in place whereby AGSL provides all management services to all Atrium Group companies. Under the service agreement AGSL will charge the costs to each Atrium group company, including AUL, for the respective services provided.

ASIA carries on for its own account the business of insurance intermediation in Singapore, operating on the Lloyd's Asia platform. In this capacity it has been granted authority by Syndicate 609 to bind certain risks (including marine hull, energy, aviation and non-marine property risks) and has been approved by Lloyd's and the Monetary Authority of Singapore to act as a Lloyd's Singapore Service Company. Under the terms of the arrangement with Syndicate 609, ASIA charges fees to the Syndicate equal to its operating costs plus a small margin for tax reasons. Fees of S$3,338,000 were paid by Syndicate 609 to ASIA on the 2014 year of account.

ARMS is incorporated in Washington State, United States, and was established to support the Syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMS charges fees to the Syndicates equal to its operating costs plus a small margin for tax reasons. Fees of U$1,267,000 were paid by Syndicate 609 to ARMS in respect of the 2014 year of account.

ARMSBC is incorporated in British Columbia, Canada, and was established to support the Syndicate strategy to maintain and grow it's North American direct portfolio and distribution network. ARMSBC charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of C$760,000 were paid by Syndicate 609 to ARMSBC in respect of the 2014 year of account.

The Directors' participations on Syndicate 609 via Nomina No. 207 LLP are as follows (this includes any Director of AUL that served during 2016 and was a partner in the staff LLP):

	Year of account			
	2014 £	2015 £	2016 £	2017 £
Steve Cook	39,103	46,359	–	**–**
James Cox	48,071	103,610	81,979	**74,170**
Toby Drysdale	31,887	37,723	23,590	**19,700**
Richard Harries	300,000	446,185	317,688	**277,611**
James Lee	–	45,527	42,197	**56,659**
Brendan Merriman	–	34,145	31,648	**32,004**
Samit Shah	46,729	67,984	50,717	**72,526**
Kirsty Steward	–	34,145	21,114	**21,461**

The capital requirement for the LLP increased for the 2016 year of account leading to reductions in individual participations.

AUL has made no loans to directors of the company during 2016 (2015 – nil). There were no loans outstanding at the balance sheet date.

Managing agency fees of £2,927,000 were paid by the syndicate to AUL. Profit commission of £18,031,000 is payable by the syndicate to AUL in relation to the 2014 year of account result. The managing agents agreement was amended in 2007 to enable managing agents to make payments on account of profit commission, prior to the closure of a year of account. Payments on account can be made when the syndicate transfers open year surpluses from the syndicate level premium trust funds to the members' personal reserve fund. No such payment was made in 2016. Included within creditors is £18,031,000 in respect of profit commission payable to AUL in relation to the 2014 year of account.

Given the insurance related activities undertaken within the broader Enstar group it is possible that transactions may be entered into between the Atrium managed syndicate and Enstar Group companies (including Starstone insurance group entities and the Starstone managed Lloyd's syndicates 1301 and 2008). Any such related party transactions are entered into by the syndicate on a commercial basis and managed in accordance with the protocols set out in Atrium's Conflicts of Interest Policy.

Enstar representatives serving as Directors of AUL also hold Board positions at other Enstar group companies and these individuals disclose and manage any potential conflicts of interest in line with Atrium's usual practice.

SEVEN YEAR SUMMARY OF RESULTS

SYNDICATE 609 AT 31 DECEMBER 2016

	Notes	2014 £m	2013 £m	Year of Account 2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Syndicate allocated capacity	1	**420**	419	418	274	275	200	215
Aggregate net premiums		**332**	339	334	183	193	195	167
Number of underwriting members		**3,116**	3,140	3,165	3,128	3,102	2,991	2,976
Results for an illustrative share of £10,000		**£**	**£**	**£**	**£**	**£**	**£**	**£**
Gross premiums		**8,802**	9,370	9,116	8,147	8,508	12,072	9,290
Gross premiums %	2	**88.0%**	93.7%	91.2%	81.5%	85.1%	120.7%	92.9%
Net premiums		**7,913**	8,284	7,978	6,675	7,040	9,758	7,739
Net premiums %	3	**79.1%**	82.8%	79.8%	66.7%	70.4%	97.6%	77.4%
Premium for the reinsurance to close an earlier year of account	4	**7,323**	6,896	6,951	5,916	5,301	7,929	6,842
Net claims	5	**3,102**	3,644	3,049	3,564	2,569	3,469	3,763
Premium for the reinsurance to close the year of account		**7,733**	6,253	6,632	5,256	5,985	7,969	7,287
Underwriting profit		**4,401**	5,283	5,248	3,771	3,787	6,249	3,531
Loss/(profit) on exchange		**–**	–	159	(107)	(69)	119	(814)
Syndicate operating expenses		**2,801**	3,343	2,929	2,074	1,944	2,719	2,063
Balance on technical account		**1,600**	1,940	2,160	1,804	1,912	3,411	2,282
Balance on technical account %	6	**18.2%**	20.7%	23.7%	22.1%	22.5%	28.3%	24.6%
Investment return		**194**	106	104	89	242	298	383
Other foreign exchange gains	7	**881**	66	–	–	–	–	–
Profit for closed year of account		**2,675**	2,112	2,264	1,893	2,154	3,709	2,665
Illustrative managing agent's profit commission		**384**	381	441	364	416	720	515
Illustrative personal expenses		**521**	139	51	66	69	95	76
Profit after illustrative profit commission and illustrative personal expenses	8	**1,770**	1,592	1,772	1,463	1,669	2,894	2,074

Notes

1. With effect from 1 January 2014 the 2011 year of account of Syndicate 570 was reinsured to close into the 2012 year of account of Syndicate 609.
2. Gross premiums as a percentage of illustrative share.
3. Net premiums as a percentage of illustrative share.
4. The reinsurance to close premium that has been received by the 2014 year of account has been retranslated to the rates of exchange that were applicable as at 31 December 2016. Reinsurance to close premiums receivable in respect of the 2014 and prior years of account have not been restated.
5. Net claims include internal claims settlement expenses.
6. Balance on technical account as a percentage of gross premiums.
7. With effect from 31.12.15, other foreign exchange gains are reported in the non-technical account and as other comprehensive income, and not as syndicate operating expenses.
8. Illustrative personal expenses, including illustrative profit commission, are based on a calculation of amounts incurred by a member writing an illustrative share. For this purpose minimum fee charges are ignored.

Memorandum Item

For an illustrative share of £10,000	Notes	2014 £m	2013 £m	Year of Account 2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Aggregation of annual fee, profit commission and syndicate expenses	7	**900**	880	1,037	778	815	1,330	973

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