

## IMPORTANT INFORMATION ABOUT SYNDICATE REPORTS AND ACCOUNTS

Access to this document is restricted to persons who have given the certification set forth below. If this document has been forwarded to you and you have not been asked to give the certification, please be aware that you are only permitted to access it if you are able to give the certification.

The syndicate reports and accounts set forth in this section of the Lloyd's website, which have been filed with Lloyd's in accordance with the Syndicate Accounting Byelaw (No. 8 of 2005), are being provided for informational purposes only. The syndicate reports and accounts have not been prepared by Lloyd's, and Lloyd's has no responsibility for their accuracy or content. Access to the syndicate reports and accounts is not being provided for the purposes of soliciting membership in Lloyd's or membership on any syndicate of Lloyd's, and no offer to join Lloyd's or any syndicate is being made hereby. Members of Lloyd's are reminded that past performance of a syndicate in any syndicate year is not predictive of the related syndicate's performance in any subsequent syndicate year.

You acknowledge and agree to the foregoing as a condition of your accessing the syndicate reports and accounts. You also agree that you will not provide any person with a copy of any syndicate report and accounts without also providing them with a copy of this acknowledgment and agreement, by which they will also be bound.

**XL London Market Ltd  
Syndicate 1209  
at Lloyd's**

**Annual Accounts**

**Year ended 31 December 2014**

**XL Group  
Insurance**



***MAKE YOUR WORLD GO***



<b>CONTENTS</b>	<b>Page</b>
Highlights	1
Report of the Directors of the Managing Agent	2-4
Statement of Managing Agent's Responsibilities	5
Independent Auditors' Report to the Member of Syndicate 1209	6-7
Profit and Loss Account: Technical Account	8
Profit and Loss Account: Non-Technical Account	9
Balance Sheet	10-11
Statement of Cash Flows	12
Notes to the Financial Statements	13-21



## HIGHLIGHTS

	2014	2013
Syndicate capacity (£m)	300.0	300.0
Gross premiums written (£m)	302.0	306.8
Net premiums written (£m)	244.9	259.6
Earned premiums, net of reinsurance (£m)	245.1	267.4
Underwriting result (£m)	19.4	16.5
<b>Profit for the financial year (£m)</b>	<b>24.8</b>	<b>16.5</b>
Claims ratio	59.7%	48.0%
Expense ratio	37.3%	45.5%
Combined ratio	97.0%	93.5%
Cash and investments (£m)	724.3	660.1
Investment return (%)	2.5%	(0.1)%



## REPORT OF THE DIRECTORS OF THE MANAGING AGENT

For the year ended 31 December 2014

The directors of XL London Market Ltd ("XLLM"), the managing agent for Syndicate 1209 ("the Syndicate"), present their annual report and the audited financial statements of the Syndicate for the year ended 31 December 2014.

### Basis of preparation

The financial statements have been prepared under the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") and in accordance with the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP"), dated December 2005 (as amended in December 2006).

The financial statements have been prepared in accordance with applicable accounting standards using consistent accounting policies to those adopted in previous years.

Separate underwriting year accounts for the 2012 underwriting year have not been prepared, as the company has taken advantage of the exemption under paragraph 6 of the Regulations.

### Principal activities

The principal activity of the Syndicate continues to be the underwriting of general insurance business within the Lloyd's of London market. The business conducted is principally direct insurance and facultative reinsurance and the main lines of business are Marine and Offshore Energy, Aviation, Middle Market insurance, Specie, Crisis Management, Political Risks, Equine and Design Professional.

## STRATEGIC REPORT

### Results and performance

The Syndicate's result, as set out on pages 8 and 9, shows a profit for the financial year of £24.8m (2013: £16.5m).

Gross written premium for the Syndicate decreased to £302.0m from £306.8m due mainly to the soft insurance market as margins were protected and reduction in the UK Middle Market book on the London platform. Details of business written by class of business are shown in note 3: Segmental analysis, in the notes to the financial statement

Softening of the insurance market continued to cause the decline in the gross premiums written. This is partially offset by the introduction of Crisis Management and Political Risks and Trade Credit classes. The improvement in loss ratio is in line with the Syndicate's strategy on writing portfolios with lower loss ratios, including Political Risks and Trade Credit and new specialty lines, as well as in 2014 we saw a low level of catastrophe events.

### Strategy and future outlook

XLLM's strategy is to leverage the inherent strengths of the Lloyd's market to write a portfolio of business which achieves or outperforms our capital provider's target returns over the underwriting cycle. We aim to differentiate ourselves through offering underwriting excellence in specialised areas of insurance. Our objective is to support our underwriters with a flexible underwriting environment, superior analytics, efficient claims handling and a robust Enterprise Risk Management framework.

During the year, the Syndicate entered into a Quota Share facility with Marsh "Project Blue". This allows the Syndicate to write Downstream Energy business which aids diversifying the Syndicate's product offerings. The Syndicate continues to expect growth from two sources: expansion of the established books, as well as new portfolio of business.

The growth prospects on our established books of business is somewhat dampened by current market conditions. Our long term plan does not anticipate a significant improvement. The level of capacity and capital within the industry is currently such that it would take a remote event, or combination of events to create a major change in the rating environment. Our expectation therefore is to see only modest rate increase, marginally above loss cost inflation. Notwithstanding these conditions, there are opportunities for growth in our existing lines, coming from two main sources:

- Developing our capabilities in Specialty lines where we are currently either under scale or under-represented; and
- Taking advantage of underlying economic growth, to increase our exposure to a particular segment.

We will continue to remain alert to opportunities to introduce new lines of business which make use of the key strengths of the Lloyd's platform, notably

- Licensing
- Access to wholesale distribution sources
- Access to a subscription market
- Lloyd's brand

### Underwriting volumes

An analysis of the Syndicate's underwriting by class of business and geographical area is set out in note 3 of the financial statements.



## REPORT OF THE DIRECTORS OF THE MANAGING AGENT *(Continued)*

For the year ended 31 December 2014

### Principal risks and uncertainties

The process of risk acceptance and risk management is addressed through a framework of policies, procedures and internal controls. This is reviewed annually as part of the Syndicate Business Forecast ("SBF") and Solvency Capital Requirement ("SCR") process. The Board of XLLM approved the overall framework and has charged day to day running of the Syndicate operations to the Executive Committee (which reports to the Board) and the monitoring of risk to the Risk Monitoring Committee ("RMC") which reports to the Executive Committee with oversight from the Audit Risk and Reserving Committee ("ARRC"). The RMC meets monthly to review and update the risk register as appropriate and to monitor performance against risk appetite using a series of key risk indicators. The Board is responsible for satisfying itself that a proper internal control framework exists and operates effectively to manage risks.

### Insurance risk

Insurance risk is the risk of loss arising from the inherent uncertainties about the occurrence, amount and timing of insurance liabilities and premiums arising from the risks accepted through insurance and reinsurance activities. The two main components are underwriting risk (i.e. the risks from new exposures) and reserving risk (i.e. risks from past exposures).

The Board manages insurance risk by agreeing its appetite for these risks annually which are reflected in the SBF which sets targets for volumes, pricing, line sizes and retention by class of business. Performance against plan is monitored throughout the year.

Catastrophe modelling software is used to model maximum probable losses from catastrophe-exposed business. Reserve adequacy is monitored through quarterly reserving meetings between underwriters, actuaries and finance staff. Reinsurance is purchased to protect against single large losses and an accumulation of claims from a single event.

### Financial risk management objectives

The Syndicate is exposed to financial risk through its financial assets, reinsurance assets and liabilities to policyholders. The key financial risk is that the proceeds from financial assets are not sufficient to fund the obligations arising from policies as they fall due. The most important components of financial risk are credit risk, market risk (comprising interest rate and currency risks) and liquidity risk.

The Syndicate manages these positions within an overall asset liability management ("ALM") framework that has been developed to ensure assets are matched to policyholder liabilities by duration and currency.

### Credit risk

Credit risk is the impact arising from the failure of a counterparty to make full and timely payments on their financial obligations or from the change in the market value of assets due to a deterioration of a counterparty's creditworthiness.

Key areas where the Syndicate is exposed to credit risk are:-

- Exposure to corporate bonds;
- Reinsurers' share of insurance liabilities;
- Amounts due from reinsurers in respect of claims already paid; and
- Amounts due from insurance intermediaries.

The Syndicate monitors its exposure to a single counterparty, or groups of counterparties.

XLLM has stringent security requirements for all outwards reinsurance focusing on both level of security and aggregate exposure to any one reinsurer. Investments are mainly held in investment grade assets. Holdings of non-governmental securities are strictly limited by value and exposure to any one counterparty.

The Syndicate does not offer credit risk transfer within its Terms of Business Arrangements with brokers.

### Market risk

Market risk is the impact arising from the uncertainty of asset prices, interest rates, foreign exchange rates and other factors related to financial markets and investment asset management.

XLLM imposes restrictions on the external investment managers' investment strategies. Strict limits, by trust fund, are set for types of assets held, concentration limits and average investment grade ratings. Investments are typically investment grade bonds and investment grade asset backed securities. Guidelines and benchmarks are set annually and approved by the board.

The performance of the investment managers is monitored constantly by XL Group investment specialists and reported monthly to XLLM management and reviewed quarterly by the XLLM Board of directors. The Syndicate aims to manage exchange rate exposure in US dollar terms and asset and liabilities are duration matched. As at the 31 December 2014, more than 90% of the Syndicate's investments are rated A or above. The Syndicate does not use hedge accounting.



## REPORT OF THE DIRECTORS OF THE MANAGING AGENT *(Continued)*

For the year ended 31 December 2014

### **Liquidity risk**

Liquidity risk is the risk that insufficient financial resources are available to meet obligations as they fall due or can only be secured at excessive cost.

The Syndicate manages liquidity risk through regular cash flow forecasts and consultation with XL Group treasury functions.

### **Managed syndicates and underwriting arrangements**

XLLM, the managing agent of the Syndicate, is a company registered in England and Wales. XLLM is a 100% subsidiary of its ultimate parent XL Group plc, a company registered in Ireland. Copies of the financial statements of both XLLM and XL Group plc are available from XL House, 70 Gracechurch Street, London, EC3V 0XL.

The Syndicate is wholly aligned with capital provided by XL through a subsidiary.

### **Stamp capacity of the Syndicate**

The stamp capacity for the 2010 and subsequent years of account is £300m.

### **Directors of the managing agent**

The directors of the managing agent who were in office during the year and up to the date of signing the annual accounts are shown below. None of the directors or active underwriter participated as members during this time.

P R Bradbrook	
R Glauber	
R O Hudson	(non-executive)
J F Ibbott	
N D Robertson	
M D Turner	
P Wilson	(non-executive)

### **Active underwriter**

Mr Neil Robertson is the active underwriter.

### **Company secretary**

Mr Graham Brady is the company secretary.

### **Annual general meeting**

XLLM has advance consent not to hold an annual general meeting during 2014. The member of the Syndicate has provided their written approval to this consent.

### **Charitable and political donations**

Neither XLLM nor the Syndicate made any charitable or political donations in the period (2013: Nil).

### **Registered office**

The registered office of XLLM is XL House, 70 Gracechurch Street, London, EC3V 0XL. The accounting records are held at this site.

### **Independent auditors**

XLLM intend re-appointing PricewaterhouseCoopers LLP, as auditors to the Syndicate, and PricewaterhouseCoopers LLP have expressed their willingness to continue in office.

In accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the member of the Syndicate has provided written approval of the proposed re-appointment of PricewaterhouseCoopers LLP, as auditors to the Syndicate.

XLLM has advance consent under the Audit Arrangements Byelaw in order for PricewaterhouseCoopers LLP to perform the audit of the Syndicate as well as certain related companies within the XL Group. The member of the Syndicate has provided their written approval to this consent.



## STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

For the year ended 31 December 2014

The directors of the managing agent are responsible for preparing the Syndicate annual accounts in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 ("the Regulations") require the managing agent to prepare syndicate annual accounts for the Syndicate at 31 December each year. The directors 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 those syndicate annual accounts, the managing agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 on the basis that the Syndicate will continue to write future business unless it is inappropriate to presume that there will be future years of account of the Syndicate.

The directors of the managing agent are responsible for keeping adequate accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time, the financial position of the Syndicate and enable it to ensure that the Syndicate's annual accounts comply with the Regulations and the relevant provisions of the Companies Act 2006. 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.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

### Statement of disclosure of information to auditors

Each of the persons who are a director of the managing agent at the date of this report confirms that:

- so far as each of them is aware, there is no information relevant to the audit of the Syndicate's financial statements for the year ended 31 December 2014 of which the auditors are unaware; and
- each director has taken all the steps that he/she ought to have taken as a director in order to make him/herself aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Approved by the Board of XL London Market Ltd. and signed on its behalf by:

A handwritten signature in black ink, appearing to read 'G Brady'.

G Brady  
Company Secretary  
24 February 2015





## INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 1209

### Report on the syndicate annual accounts

#### Our Opinion

In our opinion the syndicate annual accounts, defined below:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2014 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

#### What we have audited

The syndicate annual accounts for the year ended 31 December 2014, which are prepared by the Managing Agent, comprise:

- the Balance Sheet as at 31 December 2014;
- the Profit and Loss account for the year then ended;
- the cash flow statement; and
- the notes to the syndicate annual accounts, which include other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the Managing Agent has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

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

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

#### Other matters on which we are required to report by exception

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

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

We have no exceptions to report arising from this responsibility.

#### Responsibilities for the syndicate annual accounts and the audit

##### Our responsibilities and those of the Managing Agent

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 5, the Managing Agent is responsible for the preparation of syndicate annual 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 annual accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the syndicate's members as a body in accordance with section 10 of part 2 of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

##### What an audit of syndicate annual accounts involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs (UK & Ireland)). An audit involves obtaining evidence about the amounts and disclosures in the syndicate annual accounts sufficient to give reasonable assurance that the syndicate annual accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the syndicate's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Managing Agent; and
- the overall presentation of the syndicate annual accounts.

We primarily focus our work in these areas by assessing the Managing Agent's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the syndicate annual accounts.



**INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 1209** *(Continued)*  
**Report on the syndicate annual accounts**

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the syndicate annual accounts to identify material inconsistencies with the audited syndicate annual accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

A handwritten signature in black ink that reads "Kate McDonald".

**Kate McDonald (Senior statutory auditor)**  
**For and on behalf of PricewaterhouseCoopers LLP**  
**Chartered Accountants and Statutory Auditors**  
**London**  
**24 February 2015**



## PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2014

### Technical account – general business

	Notes	2014 £000	2013 £000
<b>Earned premiums, net of reinsurance</b>			
Gross premiums written			
Continuing operations		301,752	306,404
Discontinued operations		262	418
	3	302,014	306,822
Outward reinsurance premiums		(57,075)	(47,271)
Net premiums written		244,939	259,551
Change in the provision for unearned premiums			
Gross amount		(5,723)	11,148
Reinsurers' share		5,930	(3,278)
		207	7,870
<b>Earned premiums, net of reinsurance</b>		245,146	267,421
<b>Allocated investment return transferred from the non-technical account</b>		12,061	(950)
<b>TOTAL TECHNICAL INCOME</b>		<u>257,207</u>	<u>266,471</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid			
Gross amount		(168,529)	(172,426)
Reinsurers' share		32,694	40,398
		(135,835)	(132,028)
Change in the provision for claims			
Gross amount		4,371	21,733
Reinsurers' share		(14,900)	(18,128)
		(10,529)	3,605
<b>Claims incurred, net of reinsurance</b>	3	(146,364)	(128,423)
<b>Net operating expenses</b>	3 & 5	(91,467)	(121,572)
<b>TOTAL CHARGES</b>		<u>(237,831)</u>	<u>(249,995)</u>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<u>19,376</u>	<u>16,476</u>
Attributable to			
Continuing operations	3	15,767	13,391
Discontinued operations	3	3,609	3,085
		<u>19,376</u>	<u>16,476</u>



## PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2014

### Non-technical account

	Notes	2014 £000	2013 £000
<b>Balance on the general business technical account</b>		19,376	16,476
Investment income	9	21,409	22,316
Unrealised gains on investments	9	3,594	620
Investments expenses and charges	9	(4,250)	(4,098)
Unrealised losses on investments	9	(3,255)	(19,788)
		17,498	(950)
Allocated investment return transferred to the general business technical account	9	(12,061)	950
<b>PROFIT FOR THE FINANCIAL YEAR</b>		<u>24,813</u>	<u>16,476</u>

There were no recognised gains or losses relating to the current or preceding year other than those included in the profit and loss account and accordingly a statement of recognised gains and losses has not been presented.

The notes on pages 12 to 20 form an integral part of the financial statements.



## BALANCE SHEET

As at 31 December 2014

### ASSETS

	Notes	2014 £000	2013 £000
<b>Investments</b>			
Other Financial investments	10	626,006	552,678
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums		23,140	17,210
Claims outstanding		128,353	136,908
		<u>151,493</u>	<u>154,118</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	11	72,715	86,894
Debtors arising out of reinsurance operations	12	37,355	17,844
Other debtors		11,707	10,596
		<u>121,777</u>	<u>115,334</u>
<b>Other assets</b>			
Cash at bank and in hand		38,943	39,890
Overseas deposits	13	59,357	67,546
		<u>98,300</u>	<u>107,436</u>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs		28,682	27,813
Other prepayments and accrued income		-	-
		<u>28,682</u>	<u>27,813</u>
<b>TOTAL ASSETS</b>		<u>1,026,258</u>	<u>957,379</u>



## BALANCE SHEET

As at 31 December 2014

### LIABILITIES

	Notes	2014 £000	2013 £000
<b>Capital and reserves</b>			
Member's balances	14	210,587	192,359
<b>Technical Provisions</b>			
Provision for unearned premiums		157,293	151,562
Claims outstanding		587,406	574,782
		<u>744,699</u>	<u>726,344</u>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	15	4,840	2,993
Creditors arising out of reinsurance operations	16	29,156	32,890
Amounts owed to credit institutions		33,231	-
Other creditors including taxation		285	175
		<u>67,512</u>	<u>36,058</u>
<b>Accruals and deferred income</b>		<u>3,460</u>	<u>2,618</u>
<b>TOTAL LIABILITIES</b>		<u><u>1,026,258</u></u>	<u><u>957,379</u></u>

The notes on pages 12 to 20 form an integral part of the financial statements.

The Syndicate annual accounts were approved by the Board of XL London Market Ltd. and were signed on its behalf by:

A handwritten signature in black ink, appearing to read 'P R Bradbrook'.

P R Bradbrook  
Finance Director  
24 February 2015



## STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
<b>Reconciliation of profit to net cash inflow from operating activities</b>			
Profit for the financial year		24,813	16,476
Realised and unrealised investment (losses)/gains	17	(22,122)	30,272
Increase/(decrease) in net technical provisions		20,980	(17,284)
Increase in debtors and prepayments		(7,312)	(6,510)
Decrease in creditors		(935)	(155)
<b>Net cash Inflow from operating activities</b>		<b>15,424</b>	<b>22,799</b>
<b>Returns on investment and servicing of finance:</b>			
Payment to capital providers		(6,578)	-
Member's service charges	14	(7)	(6)
<b>Net cash Inflow</b>		<b>8,839</b>	<b>22,793</b>
<b>Cash flows were invested as follows:</b>			
Decrease in cash holdings	17	(35,664)	(24,799)
(Decrease)/increase in overseas deposits	17	(8,518)	8,293
Increase in portfolio investments	18	53,021	39,299
<b>Net cash Inflow</b>		<b>8,839</b>	<b>22,793</b>



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

### 1. Basis of Preparation

The financial statements have been prepared on the basis that the Syndicate will continue to write future business, and in accordance with regulation 5 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 (IAD) ("the Regulations") and reflect the provisions of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('SI2008/410') as modified by the IAD and the provisions of the Statement of Recommended Practice on Accounting for Insurance Business issued by the Association of British Insurers ("the ABI SORP"), dated December 2005 (as amended in December 2006).

The financial statements have been prepared in accordance with applicable accounting standards using consistent accounting policies to those adopted in previous years.

Capital supporting the business of the Syndicate, referred to as Funds at Lloyd's ("FAL") is, in part, held in separate trust funds administered by Lloyd's in addition to amounts held within the Syndicate Premium Trust Funds. The amounts held by the Corporate Member outside the Syndicate Premium Trust Funds are available to meet the underwriting obligations of the Syndicate, if required. However, these funds are not included in the Syndicate's balance sheet because they are not owned by the Syndicate. The Lloyd's central fund arrangements are available in the event that an individual member's funds are exhausted.

Separate underwriting year accounts for the 2012 underwriting year have not been prepared, as the company has taken advantage of the exemption under paragraph 6 of the Regulations.

The principle accounting policies are set out below:

### 2. Accounting Policies

#### (a) Basis of accounting

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

##### (i) Premiums written

Premiums written comprise premiums on contracts inception during the financial year, together with adjustments made in the year to premiums written in prior accounting periods. They also include estimates for pipeline premiums, representing amounts due to the Syndicate not yet notified.

Premiums are shown gross of brokerage payable and exclude taxes and duties levied on them.

##### (ii) Unearned premiums

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

##### (iii) 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.

##### (iv) Claims incurred

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

##### (v) Claims provisions and related recoveries

The outstanding claims comprise amounts set aside for claims notified and claims incurred but not yet reported ("IBNR").

Notified claims are estimated on a case by case basis. In estimating the cost of these the Syndicate has regard to the claim circumstance as reported, any information available from loss adjusters and information on the cost of settling claims with similar characteristics in a previous period. Large claims impacting each relevant business class are generally assessed separately, being measured on a case by case basis or projected separately in order to allow for the possible distortion of the development and incidence of these large claims.

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Syndicate's actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. 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 provision for claims includes amounts in respect of internal and external claims handling costs.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR having regard to the reinsurance programme in place for the class of business and the claims experience for the year. It is net of estimated irrecoverable amounts having regard to the current security rating of the reinsurance companies involved.





## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2014

The Syndicate uses a number of statistical techniques to assist in making the above estimates.

The two most critical assumptions with regards to 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 of XLLM consider that the provisions for gross claims and related reinsurance recoveries are fairly stated on the basis of the information currently available to them. However, ultimate liability will vary as a result of subsequent information and events and this may result in significant adjustments to the amounts provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made. The methods used, and the estimate made, are reviewed regularly.

### *(vi) Acquisition costs*

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

### *(vii) Unexpired risks provision*

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

Unexpired risk surpluses and deficits are offset when business risk classes are managed together and a provision is made only when an aggregate deficit arises.

### *(b) Foreign currencies*

Transactions in Sterling, Canadian dollars, Euros and Australian dollars are translated at the rate of exchange ruling at the date of the transaction or at an appropriate average rate. Underwriting transactions denominated in other foreign currencies are included at the rate of exchange ruling at the date the transaction is processed.

Gains and losses on foreign exchange are included within the profit and loss account.

Monetary assets and liabilities are re-translated into Sterling at the rate of exchange at the balance sheet date unless contracts to sell currency for Sterling have been entered into prior to the year end, in which case the contracted rates are used. Non-monetary

assets and liabilities at the balance sheet date, primarily deferred acquisition costs and unearned premiums, are maintained at the rate of exchange ruling when the contract was entered into (or the approximate average rate).

### *(c) Investments*

Investments and Overseas deposits are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid value and deposits with credit institutions are stated at cost.

In line with normal Lloyd's market practice, the Syndicate writes business in certain jurisdictions that require the deposit of cash and investments in locally held trust funds therefore preventing the free transfer of cash between currencies and locations.

### *(d) Investment return*

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

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

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

### *(e) Taxation*

Under Schedule 19 of the Finance Act 1993 managing agents are not required to deduct income tax from trading income. 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 have been included in the balance sheet under the heading "other debtors".



## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2014

### 3. Segmental Analysis

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

2014	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
<b>Direct insurance:</b>						
Accident and health	53	208	660	(103)	(113)	652
Motor (other classes)	-	16	(353)	-	970	633
Marine aviation and transport	87,022	92,482	(31,373)	(24,832)	(11,250)	25,027
Fire and other damage to property	48,503	50,453	(25,202)	(17,956)	(55)	7,240
Third party liability	38,939	39,573	(42,808)	(11,447)	(7,845)	(22,527)
Other	22,150	17,412	(13,462)	(4,819)	590	(279)
<b>Reinsurance acceptances</b>	<b>105,347</b>	<b>96,147</b>	<b>(51,620)</b>	<b>(32,310)</b>	<b>(15,648)</b>	<b>(3,431)</b>
<b>Total</b>	<b>302,014</b>	<b>296,291</b>	<b>(164,158)</b>	<b>(91,467)</b>	<b>(33,351)</b>	<b>7,315</b>

2013	Gross premiums written £000	Gross premiums earned £000	Gross claims incurred £000	Net operating expenses £000	Reinsurance balance £000	Total £000
<b>Direct insurance:</b>						
Accident and health	(46)	(37)	(588)	10	(1,639)	(2,254)
Motor (other classes)	3	2	1,103	(8)	(4,486)	(3,389)
Marine aviation and transport	128,595	153,915	(65,855)	(53,841)	(3,625)	30,594
Fire and other damage to property	49,685	52,508	(17,991)	(20,956)	(4,087)	9,474
Third party liability	50,816	57,249	(49,376)	(21,745)	(2,492)	(16,364)
Other	16,212	11,806	(3,647)	(3,282)	(2,629)	2,248
<b>Reinsurance acceptances</b>	<b>61,557</b>	<b>42,527</b>	<b>(14,339)</b>	<b>(21,750)</b>	<b>(9,321)</b>	<b>(2,883)</b>
<b>Total</b>	<b>306,822</b>	<b>317,970</b>	<b>(150,693)</b>	<b>(121,572)</b>	<b>(28,279)</b>	<b>17,426</b>

The Reinsurance balance represents the charge to the technical account from the aggregate of all items relating to outwards reinsurance.

### GEOGRAPHICAL ANALYSIS BY ORIGIN

All business written by the Syndicate is signed through Xchanging Ins-sure Services (XIS) and is treated as having originated in the UK.

### CONTINUING AND DISCONTINUED OPERATIONS

2014	Continuing £000	Discontinued £000	Total £000
Earned premiums, net of reinsurance	243,544	1,602	245,146
Allocated investment return transferred from the non-technical account	10,445	1,616	12,061
Claims incurred, net of reinsurance	(147,409)	1,045	(146,364)
Net operating expenses	(90,813)	(654)	(91,467)
<b>Balance on the technical account</b>	<b>15,767</b>	<b>3,609</b>	<b>19,376</b>



## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2014

### 3. Segmental Analysis (continued)

2013	Continuing £000	Discontinued £000	Total £000
Earned premiums, net of reinsurance	266,983	438	267,421
Allocated investment return transferred from the non-technical account	(818)	(132)	(950)
Claims incurred, net of reinsurance	(132,429)	4,006	(128,423)
Net operating expenses	(120,345)	(1,227)	(121,572)
<b>Balance on the technical account</b>	<b>13,391</b>	<b>3,085</b>	<b>16,476</b>

Discontinued Operations include Accident and Health, Professional Indemnity, Property, Proportional Treaty acceptances and Political Risks business.

### 4. Movement in Prior Year's Provision for Claims

An overall strengthening of prior year's provisions for claims during the year of approximately £0.3m (2013: release of £32.3m) was primarily driven by the adverse experience on the Public Liability accounts in Third party liability, strengthening of £20.8m (2013: strengthening of £9.2m). This is offset by the favourable experience on Marine aviation and transport £14.8m (2013: release of £32.6m), Fire and other damage to property £3.6m (2013: release of £5.6m) and Pecuniary loss £2.2m (2013: release of £3.3m).

### 5. Net Operating Expenses

	2014 £000	2013 £000
Acquisition costs	54,573	56,515
Members' standard personal expenses	2,353	3,016
Change in deferred acquisition costs	(868)	1,398
Administrative expenses	52,658	51,222
(Profit)/loss on foreign exchange	(9,681)	11,254
Reinsurers' commissions	(7,568)	(1,833)
	<b>91,467</b>	<b>121,572</b>

Total acquisition costs for direct insurance accounted for by the Syndicate during the year amounted to £36.0m (2013: £44.7m).

Administrative expenses include:

	2014 £000	2013 £000
<b>Audit Services</b>		
Fees payable to the Syndicate's auditor for the audit of the Syndicate's accounts	91	95
<b>Non-audit Services</b>		
Fees payable to the Syndicate's auditor for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	195	205
	<b>286</b>	<b>300</b>

### 6. Staff Numbers and Costs

The Syndicate has no direct employees. The employees that provide services to the Syndicate are employed by other XL Group companies and an expense is recharged to the Syndicate by XL Services UK Ltd. The expense recharge includes the cost of these employees, but it is not possible to ascertain separately the element of the expense recharge that relates directly to staff costs or staff numbers.



## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2014

### 7. Emoluments of the Directors of XL London Market Ltd.

XL Services UK Ltd. charged the Syndicate the following amounts in respect of aggregate emoluments paid to the directors of XL London Market Ltd.:

	2014 £000	2013 £000
Aggregate emoluments	478	412

### 8. Active Underwriter's Emoluments

The Active Underwriter received the following aggregate remuneration charged to the Syndicate:

	2014 £000	2013 £000
Aggregate emoluments	283	253

### 9. Investment Return

	2014 £000	2013 £000
Investment income		
Income from financial investments	18,465	19,871
Gains on the realisation of investments	2,944	2,445
	21,409	22,316
Investment expenses and charges		
Investment management expenses	(1,490)	(1,503)
Losses on the realisation of investments	(2,760)	(2,595)
	(4,250)	(4,098)
Net unrealised gains/(losses) on investments	339	(19,168)
Investment return	17,498	(950)
Transferred to the technical account	12,061	(950)
Retained in the non-technical account	5,437	-
	17,498	(950)

Investment return on Member's Funds in Syndicate is retained in the non-technical account.



## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2014

### 10. Other Financial Investments

	Market value		Cost	
	2014 £000	2013 £000	2014 £000	2013 £000
Debt securities and other fixed income securities	<u>626,006</u>	<u>552,678</u>	<u>623,550</u>	<u>539,339</u>

Member's Funds in Syndicate held within the premium trust funds are £210.3m (2013: £206.5m).

### 11. Debtors Arising out of Direct Insurance Operations

	2014 £000	2013 £000
Due within one year – intermediaries	<u>72,715</u>	<u>86,894</u>

### 12. Debtors Arising out of Reinsurance Operations

	2014 £000	2013 £000
Due within one year	<u>37,355</u>	<u>17,844</u>

### 13. Overseas Deposits

	2014 £000	2013 £000
Illinois – USA	1,419	2,079
Joint Asset Trust Fund – USA	1,357	1,295
Australian Deposit	40,262	45,174
Joint Asset Trust Fund – Australia	2,602	2,621
South African Deposit	473	289
Additional Securities Limited:		
Other Countries	6,041	8,954
Kentucky – USA	5,441	5,166
Canadian Margin Fund	1,762	1,968
	<u>59,357</u>	<u>67,546</u>

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



## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2014

### 14. Reconciliation of Member's Balances

	2014 £000	2013 £000
Balance due to member at 1 January	192,359	175,889
Balance on the technical account for general business	19,376	16,476
Non-technical interest transferred to Member's Funds in Syndicate	5,437	-
Profit for the financial year	24,813	16,476
Profit distribution – 2010 Year of account	-	(35,629)
Profit distribution – 2011 Year of account	(4,900)	-
Transfer (out of)/to Funds in Syndicate	(1,678)	35,629
Member's service charges	(7)	(6)
Balance due to member at 31 December	<u>210,587</u>	<u>192,359</u>

### 15. Creditors Arising out of Direct Insurance Operations

	2014 £000	2013 £000
Due within one year – intermediaries	<u>4,840</u>	<u>2,993</u>

### 16. Creditors Arising out of Reinsurance Operations

	2014 £000	2013 £000
Due within one year	<u>29,156</u>	<u>32,890</u>

### 17. Movement in Cash, Overseas deposits and Portfolio Investments Net of Financing

	2014 £000	2013 £000
Net cash outflow from the year	(35,664)	(24,799)
(Decrease)/Increase in overseas deposits	(8,518)	8,293
Increase in portfolio investments	53,021	39,299
Movement arising from cash flows	8,839	22,793
Changes in market value and exchange rates	22,122	(30,272)
Total movement in portfolio investments net of financing	30,961	(7,479)
Balance brought forward at 1 January	660,114	667,593
Balance carried forward at 31 December	<u>691,075</u>	<u>660,114</u>



## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2014

### 17. Movement in Cash, Overseas deposits and Portfolio Investments Net of Financing (continued)

	At 1 January 2014	Cash flow	Changes to market value and currencies	At 31 December 2014
	£000	£000	£000	£000
Cash at bank and in hand	39,890	(35,664)	1,486	5,712
Overseas deposits	67,546	(8,518)	329	59,357
Total portfolio investments - Debt securities and other fixed income securities	552,678	53,021	20,307	626,006
	660,114	8,839	22,122	691,075

### 18. Cash flows invested in Portfolio Investments

	2014 £000	2013 £000
Purchase of debt securities and other fixed income securities	(243,454)	(188,099)
Sale of debt securities and other fixed income securities	190,433	148,800
Cash outflow in Portfolio Investments	(53,021)	(39,299)

### 19. Related Parties Transactions

Managing agency fees of £300,000 were paid by the Syndicate to XLLM during 2014 (2013: £300,000). The amount due from XLLM to the Syndicate as at year-end is £1.7m (2013: £1.7m).

Since 2013, the Syndicate has reduced its underwriting through its binding authorities with XL Services UK Limited, a wholly owned subsidiary of XL Group plc, a company registered in the Republic of Ireland.

On a quarterly basis, full settlement is made to XL Services UK Limited under a Service Level Agreement in relation to the provision of services and staff.

In 2014, the Syndicate increased the amount of reinsurance placed with XL Insurance (Bermuda) Ltd ("XLIB") to 12% (2013: 10%) of its overall reinsurance spend. Reinsurance recoveries from XLIB on paid claims were approximately 24% of Syndicate 1209's reinsurance recoveries on paid claims (2013: 22%) and reinsurance reserve recoveries from XLIB were approximately 10% of Syndicate 1209's reserved recoveries for both 2014 and 2013.

The Syndicate continues to write a portfolio of Reinsurance business. To protect the loss ratio of this portfolio, a stop loss reinsurance treaty was effected with XL Re Europe Ltd at a cost of £0.4m. In addition, the Syndicate continues to place motor cover with XL Re Europe Ltd with no material outstanding balances in both current and prior year-ends.

We have an internal Quota Share agreement with XLIB, ceding business on the Product Recall and Design Professional classes to reduce the net retentions to be within the Syndicate Risk Appetite.

A number of reinsurances have been purchased jointly for the benefit of the Syndicate and other XL Group companies and conditions applied by Lloyd's in relation to these reinsurances have been adhered to.

In 2014 the Syndicate entered into a 100% Quota Share Reinsurance treaty agreement with XL Insurance Guernsey Ltd ("XLIG") where all XLIG Kidnap and Ransom account are ceded to the Syndicate.



## NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

For the year ended 31 December 2014

### **20. Funds at Lloyd's and Funds in Syndicate**

Every member is required to hold capital at Lloyd's which is held in trust and known as Funds at Lloyd's ("FAL") or within the Syndicate's Premium Trust Funds as Funds in Syndicate ("FIS"). Funds held at Lloyd's are intended primarily to cover circumstances where syndicate assets prove insufficient to meet participating members' underwriting liabilities.

The level of FAL/FIS that Lloyd's requires a member to maintain is determined by Lloyd's based on FSA requirements and resource criteria. This capital requirement is based on a number of factors including the nature and amount of risk to be underwritten by the member and the assessment of the reserving risk in respect of business that has been underwritten. Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the members' FAL to meet liquidity requirements or to settle losses.

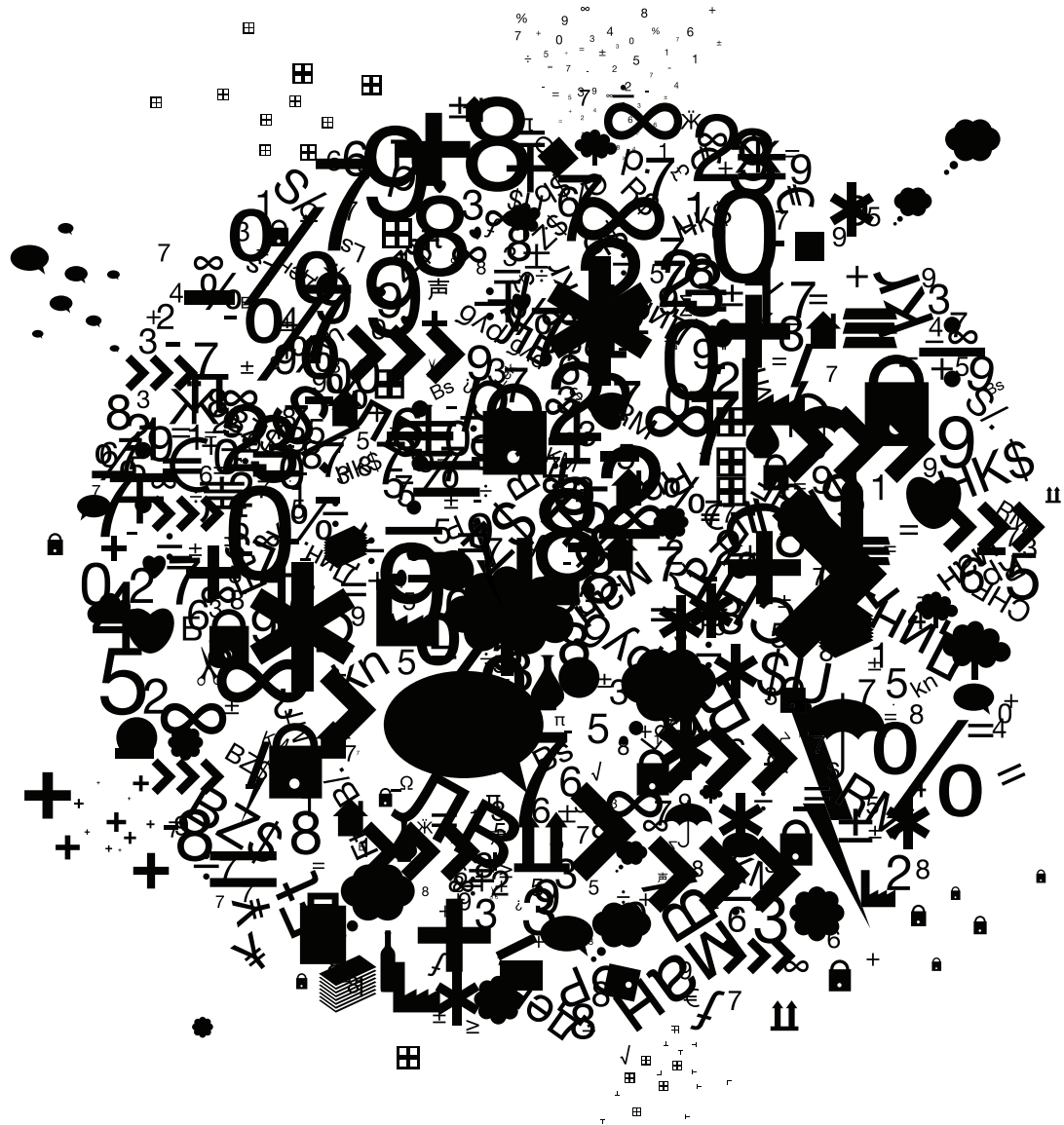
As at 31 December 2014, the value of FAL is £78.5m (2013: £70.4m) and FIS is £210.3m (2013: £206.5m).

### **21. Ultimate Parent**

XLLM, the managing agent of the Syndicate, is a company registered in England and Wales. XLLM is a wholly-owned subsidiary of XL Group plc, a company registered in the Republic of Ireland. Copies of the financial statements of both XLLM and XL Group plc are available from XL House, 70 Gracechurch Street, London, EC3V 0XL.



XL Group  
Insurance  
Reinsurance



**MAKE YOUR WORLD GO**

[xlgroup.com](http://xlgroup.com)