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Catlin Underwriting Agencies Ltd
Syndicate 1209 Annual Accounts

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MAKE YOUR WORLD GO

CATLIN UNDERWRITING AGENCIES LTD
SYNDICATE 1209 ANNUAL ACCOUNTS

CONTENTS

HIGHLIGHTS

	2015	2014
Syndicate capacity (£m)	300.0	300.0
Gross premiums written (£m)	317.7	302.0
Net premiums written (£m)	251.5	244.9
Earned premiums, net of reinsurance (£m)	254.3	245.1
Underwriting result (£m)	12.3	9.7
Profit for the financial year (£m)	14.9	12.8
Claims ratio	51.0%	59.7%
Expense ratio	44.9%	41.3%
Combined ratio	95.9%	101.0%
Cash and investments (£m)	714.5	724.3
Investment return	0.4%	2.5%

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

For the year ended 31 December 2015

The directors of Catlin Underwriting Agencies Limited ("CUAL"), 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 2015.

Principal activities

The principal activity of the Syndicate is to underwrite 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 7 and 8, shows a profit for the financial year of £14.9m (2014: £12.8m).

Gross written premium for the Syndicate increased to £317.7m from £302.0m due to new business written in Crisis Management and Political Risks and Trade Credit classes and International Financial Lines. This is offset slightly by the softening of the of the insurance market in other lines. The improvement in loss ratio is in line with the Syndicate's strategy on writing portfolios with lower loss ratios, as well as in 2015 we saw a low level of catastrophe events.

The position of the Syndicate at year end is highlighted in the Highlights on page 1.

Details of business written by class of business are shown in note 3: Segmental Analysis, in the notes to the financial statements.

Strategy and future outlook

On 1 May 2015 XL Group plc completed the acquisition of Catlin Group Limited ("Catlin") following the parties' previous announcement on 9 January 2015 to acquire all of Catlin Group Limited's capital stock to form a combined business. Post this acquisition, management of the Syndicate 1209 has been transferred from XL London Market Ltd ("XLLM") to Catlin Underwriting Agencies Limited ("CUAL") on the 6 May 2015. This change has been undertaken to streamline the legal entities of XL Group plc operate in the UK following this acquisition.

The Syndicate will not be participating in the 2016 year of account. All new and renewed business of the Syndicate will be written in Syndicate 2003, which CUAL is also the managing agent.

CUAL'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.

Underwriting volumes

An analysis of the Syndicate's underwriting by class of business and geographical area is set out in note 3: Segmental Analysis, in the notes to the financial statements.

Managed syndicates and underwriting arrangements

CUAL, the managing agent of the Syndicate, is a company registered in England and Wales. CUAL is a wholly-owned subsidiary of its ultimate parent XL Group plc ("XL"), a company registered in Ireland. Copies of the financial statements of both CUAL and XL Group plc are available from 20 Gracechurch Street, London, EC3V OBG.

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

Stamp capacity of the Syndicate

The stamp capacity for the 2010 to 2015 years of account is £300m. The Syndicate will not be participating in 2016 year of account.

Financial instruments

Information on the use of financial instruments by the Syndicate and its management of financial risk is disclosed on note 2 to the financial statements. In particular, the Syndicate's exposures to credit risk and liquidity risk are separately disclosed in that note. The Syndicate's exposure to cash flow risk is addressed under the headings of 'Market risk', 'Credit risk' and 'Liquidity risk'.

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REPORT OF THE DIRECTORS OF THE MANAGING AGENT (Continued)

For the year ended 31 December 2015

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.

S J 0 Catlin	Non-Executive Director			
R T Cowdell	Non-Executive Director			
P A Jardine	Non-Executive Director			
S Long				Resigned effective 13 February 2016
0 Whelan				Resigned effective 13 February 2016
A N McMellin		Appointed	29 April 2015	
J D Gale		Appointed	17 June 2015	
P Greensmith		Appointed	18 June 2015	
G E Bruce-Smythe		Appointed	14 July 2015	Resigned effective 13 February 2016
N D Robertson		Appointed	14 July 2015	
R R Glauber	Non-Executive Director	Appointed	12 August 2015	
P Wilson	Non-Executive Director	Appointed	12 August 2015	
J R Harris		Appointed	15 October 2015	
P R Bradbrook		Appointed	4 December 2015	
N Burkinshaw		Resigned	17 March 2015	
C Robinson	Non-Executive Director	Resigned	1 May 2015	
R Clapham		Resigned	18 June 2015	
R Callan		Resigned	31 October 2015	

Active underwriter

Mr Neil Robertson is the active underwriter.

Company secretary

A Gray is the company secretary.

Annual general meeting

CUAL has advance consent not to hold an annual general meeting during 2015. The member of the Syndicate has provided their written approval to this consent.

Charitable and political donations

Neither CUAL nor the Syndicate made any charitable or political donations in the year (2014: £Nil).

Registered office

The registered office of CUAL is 20 Gracechurch Street, London, EC3V OBG. The accounting records are held at this site.

Independent auditors

CUAL 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.

CUAL 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 2015

The directors of the managing agent are responsible for preparing the Syndicate annual accounts in accordance with applicable law and United Kingdom accounting standards including Financial Reporting Standard 102-"The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103 - "Insurance Contracts" ("FRS 103"), both issued by the Financial Reporting Council.

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 2015 of which the auditors are unaware; and

each director has taken all the steps that he ought to have taken as a director in order to make him aware of any relevant audit information and to establish that the Syndicate's auditors are aware of that information.

Approved by the Board of Catlin Underwriting Agencies Ltd. and signed on its behalf by:

A Gray
Company Secretary
15 March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 1209

Report on the syndicate annual accounts

Our Opinion

In our opinion, the Syndicate 1209 annual accounts (the "syndicate annual accounts"):

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2015 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 InsuranceAccounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

What we have audited

The syndicate annual accounts for the year ended 31 December 2015 comprise:

- the statement of financial position as at 31 December 2015;
- the statement of profit or loss for the year then ended;
- the statement of comprehensive income for the year then ended;
- the statement of changes in member's balances;
- the statement of cash flows; and
- the notes to the syndicate annual accounts, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the syndicate annual accounts is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (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 InsuranceAccounts Directive (Lloyd's Syndicate andAggregateAccounts) Regulations 2008

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 4, the Managing Agent is responsible for the preparation of the 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 part 2 of The InsuranceAccounts 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBER OF SYNDICATE 1209 (Continued)

What an audit of syndicate annual accounts involves

We conducted our audit in accordance with 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.

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 Annual Report 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.

Kate McDonald

Kate McDonald (Senior statutory auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 March 2016

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STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

Technical account - general business	**Notes**	**2015 £'000**	**2014 £'000**
Earned premiums, net of reinsurance			
Gross premiums written			
Continuing operations	3	317,651	302,014
Outward reinsurance premiums		(66,183)	(57,075)
Net premiums written		251,468	244,939
Change in the provision for unearned premiums			
Gross amount		(5,429)	(5,723)
Reinsurers' share		8,291	5,930
		2,862	207
Earned premiums, net of reinsurance		254,330	245,146
Allocated investment return transferred from the non-technical account		1,805	12,061
TOTAL TECHNICAL INCOME		256,135	257,207
Claims incurred, net of reinsurance			
Claims paid			
Gross amount		(189,900)	(168,529)
Reinsurers' share		44,510	32,694
		(145,390)	(135,835)
Change in the provision for claims			
Gross amount		36,966	4,371
Reinsurers' share		(21,206)	(14,900)
		15,760	(10,529)
Claims incurred, net of reinsurance	3	(129,630)	(146,364)
Net operating expenses	3 & 5	(114,181)	(101,148)
TOTAL CHARGES		(243,811)	(247,512)
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		12,324	9,695
Attributable to:			
Continuing operations	3	12,324	9,695

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

Non-technical account	**Notes**	**2015 £'000**	**2014 £'000**
Balance on the general business technical account		12,324	9,695
Investment income	9	19,483	21,409
Unrealised gains on investments	9	-	3,594
Investments expenses and charges	9	(3,821)	(4,250)
Unrealised losses on investments	9	(12,852)	(3,255)
		2,810	17,498
Allocated investment return transferred to the general business technical account	9	(1,805)	(12,061)
Gain / (loss) on foreign exchange		1,568	(2,354)
Profit for the financial year		14,897	12,778

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

NON-TECHNICAL ACCOUNT	**Notes**	**2015 £'000**	**2014 £'000**
Profit for the financial year		14,897	12,778
Exchange (loss) / gain on translations		(964)	2,702
Total comprehensive income for the year		13,933	15,480

STATEMENT OF CHANGES IN MEMBER'S BALANCES

For the year ended 31 December 2015

	Balance attributable to underwriting £'000	FIS £'000	Total £'000
Balance as at 1 January 2014	(14,176)	206,534	192,358
FRS Transition adjustment	4,571	-	4,571
Profit distribution — 2011 YOA	(4,900)	4,900	-
Transfer out of Funds in Syndicate	-	(6,577)	(6,577)
Member's service charges	-	(7)	(7)
Interest relating to Funds in Syndicate	-	5,437	5,437
Profit for the financial year	10,043	-	10,043
Balance as at 31 December 2014	(4,462)	210,287	205,825
Profit distribution — 2012 YOA	(41,707)	41,707	-
Transfer out of Funds in Syndicate	-	(9,226)	(9,226)
Member's service charge	-	(7)	(7)
Interest relating to Funds in Syndicate	-	1,005	1,005
Profit for the financial year	12,928	-	12,928
Balance as at 31 December 2015	**(33,241)**	**243,766**	**210,525**

STATEMENT OF FINANCIAL POSITION - ASSETS

As at 31 December 2015

	Notes	2015 £'000	2014 £'000
Investments			
Other financial investments	10	613,436	626,006
Reinsurers' share of technical provisions			
Provision for unearned premiums	11	31,792	22,695
Claims outstanding	11	110,229	128,353
		142,021	151,048
Debtors			
Debtors arising out of direct insurance operations	12	89,427	72,715
Debtors arising out of reinsurance operations	13	30,120	37,355
Other debtors	14	2,286	11,707
		121,833	121,777
Other assets			
Cash at bank and in hand		31,487	38,943
Overseas deposits	15	69,551	59,357
		101,038	98,300
Prepayments and accrued income			
Deferred acquisition costs	16	31,396	29,436
Other prepayments and accrued income		441	-
		31,837	29,436
TOTAL ASSETS		1,010,165	1,026,567

STATEMENT OF FINANCIAL POSITION - CAPITAL AND LIABILITIES

As at 31 December 2015

	Notes	2015 £'000	2014 £'000
Capital and reserves			
Member's balance		210,525	205,825
Technical provisions			
Provision for unearned premiums	11	176,653	162,419
Claims outstanding	11	559,601	587,406
		736,254	749,825
Creditors			
Creditors arising out of direct insurance operations	17	2,909	4,840
Creditors arising out of reinsurance operations	18	26,746	29,156
Amounts owed to credit institutions		28,844	33,231
Other creditors including taxation		807	285
		59,306	67,512
Accruals and deferred income		4,080	3,405
TOTAL LIABILITIES		1,010,165	1,026,567

The notes on pages 13 to 35 form an integral part of the financial statements.

The Syndicate annual accounts were approved by the Board of Catlin Underwriting Agencies Ltd. and were signed on its behalf by:

Paul Bradbrook

P R Bradbrook
Director
15 March 2016

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STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Reconciliation of profit to net cash inflow from operating activities			
Operating result		14,897	12,778
(Decrease)/increase in gross technical provisions		(13,571)	29,911
Decrease in reinsurers' share of gross technical provisions		9,027	2,312
Increase in debtors		(2,457)	(9,282)
Decrease in creditors		(3,144)	(876)
Investment return	9	(2,810)	(17,498)
Net cash generated from operating activities		1,942	17,345
Cash flow from investing activities			
Purchase of equity and debt instruments		(270,702)	(243,453)
Sale of equity and debt instruments		283,289	190,432
Investment income received		15,662	17,159
Net cash generated from/(used in) investing activities		28,249	(35,862)
Cash flow from financing activities			
Distribution of closed year's profit		(41,707)	(4,900)
Added to Funds in Syndicate		32,480	-
Draw down of Funds in Syndicate		-	(1,677)
Member's service charge		(6)	(7)
Net cash used in financial activities		(9,233)	(6,584)
Net increase/(decrease) in cash and cash equivalents		20,958	(25,101)
Cash and cash equivalents at beginning of year		65,069	107,435
Effect of exchange rate changes on cash and cash equivalents		(13,833)	(17,265)
Cash and cash equivalents at end of year		72,194	65,069
Cash at bank and in hand		31,487	38,943
Short term deposits with credit institutions		69,551	59,357
Overdrafts		(28,844)	(33,231)
Cash and cash equivalents at end of the year		72,194	65,069

NOTES TO THE FINANCIAL STATEMENTS

For the Year ended 31 December 2015

1. Basis of Preparation

The financial statements have been prepared in accordance with applicable UK accounting standards including Financial Reporting Standard 102 - "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103 - "Insurance Contracts" ("FRS 103"), both issued by the Financial Reporting Council and in compliance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("S12008/410") relating to insurance companies and other requirements of the Companies Act 2006.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the previous years presented, unless otherwise stated. The Syndicate has adopted FRS 102 and FRS 103 in these financial statements. Details of the transition to FRS 102 and 103 are disclosed in note 22.

The preparation of these financial statements required the management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future period affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in this statement of accounting policies and specifically in the following notes:

• Note 10: financial assets and liabilities (valuations based on models and unobservable inputs); and

• Note 11: insurance liabilities and reinsurance assets (estimates for losses incurred but not reported).

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 2013 underwriting year have not been prepared, as the Syndicate has taken advantage of the exemption under paragraph 6 of the Regulations.

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 incepted 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) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

(iv) Ceded Reinsurance

Contracts entered into by the group with reinsurers under which the group is compensated for losses on contracts issued by the group that meet the definition of an insurance contract. Insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

Any benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated 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 period and the current security rating of the reinsurer involved. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due.

The group assesses its reinsurance assets for impairment. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the statement of profit or loss.

(v) 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.

(vi) 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 ofm 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

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 CUAL 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

(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.

(viii) Financial assets at fair value through the income statement.

A financial asset is classified as fair value through the income statement at inception if it is acquired principally for the purpose of selling in the short term, if it forms part of a portfolio in which there is evidence of short term profit taking or if it is designated so by management. Purchases and sales are recognised on the trade date, which is the date the group commits to purchase or sell the asset, net of transaction costs. These investments are subsequently carried at fair value. Any gains and losses arising from changes in fair value are recognised in the income statement in the period in which they arise.

(b) Foreign currency

The Syndicate's financial statements are presented in thousands of pound sterling although its functional currency is in US dollars. Foreign currency transactions in pound sterling, Canadian dollars, Euros and Australian dollars are translated at the rate of exchange ruling at the dates of the transactions or at an appropriate average rate.

With the adoption of FRS 102 and FRS 103, all assets and liabilities arising from insurance contracts should be treated as monetary items. At each period end foreign currency monetary items are re-translated into US dollars at the rate of exchange at the balance sheet date. For this purpose all assets and liabilities arising from insurance contracts (including unearned premiums, deferred acquisition costs and unexpired risks provisions) are monetary items. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the non-technical account.

(c) 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".

(d) 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. All other financial instruments are designated as at fair value through profit and loss.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

(e) 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.

Net gains or losses arising from changes in the fair value of financial assets at fair value through profit or loss are presented in the profit and loss account within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise.

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.

(f) Cash and cash equivalents

Cash and cash equivalents consist of cash held at bank, cash in hand, deposits held at call with banks, cash held in Lloyd's trust accounts and other short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. These investments have maturities of three months or less from the date of acquisition. Bank overdrafts are held within the current liabilities as amounts due to credit institutions.

Cash and cash equivalents are measured at fair value through the statement of profit or loss account.

2. Risk management

(i) 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 sets targets for volumes, pricing, line sizes and retention by class of business. Performance against plan is monitored throughout the year.

Catastrophe modeling 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.

Insurance risk arises from the Syndicate's general insurance business and refers to the risk of loss or of adverse change in the value of insurance liabilities due to inadequate pricing and reserving assumptions. Example of such risks includes unexpected losses arising from fluctuations in the timing, frequency and severity of claims compared to expectations and inadequate reinsurance protection. The Syndicate's underwriting and reinsurance strategies are set within the context of the overall XL strategies, approved by the board and communicated clearly throughout the business through policy statements and guidelines. Underwriting risks are continually monitored through, for example, the established peer review process, round table review and audits, as well as via exception reporting. Formal price monitoring procedures form part of the standard monthly management information. These contribute to the quarterly actuarial review whereby the loss outcome of the underwriting activity is continually re-assessed and considered by the Reserving actuaries. There is a dedicated Catastrophe and Aggregation management function independent of underwriting management, whose responsibility is to model aggregate risk and support pricing decisions, providing a key control to the underwriting process.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

2. Risk management

(ii) 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.

(a) 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.

XL Group 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 CUAL management and reviewed quarterly by the CUAL 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 2015, more than 90% of the Syndicate's investments are rated A or above. The Syndicate does not use hedge accounting.

(b) Credit risk

Credit Risk is the risk of loss due to unexpected default, or deterioration in the credit standing of the counterparties or debtors in relation to risk mitigating contracts (such as reinsurance arrangements) and receivables from intermediaries, as well as any other credit exposures. Key areas where the Syndicate is exposed to credit risk are: reinsurers' share of insurance liabilities; amounts due from reinsurers in respect of claims already paid; amounts due from insurance contract holders; and amounts due from insurance intermediaries. Reinsurance is used to manage insurance risk. This does not, however, discharge the Syndicate liability as primary insurer. If a reinsurer fails to pay a claim, the Syndicate remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered by reviewing their financial strength prior to finalisation of any contract. Management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. In addition, the recent payment history of reinsurers is used to update the reinsurance purchasing strategy.

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.

CUAL 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.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

2. Risk management

(b) Credit risk (continued)

The table below provides information on the credit quality of financial assets of the Syndicate that are neither past due nor impaired:

2015	**AAA £'000**	**AA £'000**	**A £'000**	**BBB £'000**	**BBB or less £'000**	**Not rated £'000**	**Total £'000**
Debt securities and other fixed income securities	309,664	109,162	135,635	55,088	3,874	13	613,436
Overseas deposits as investments	44,381	9,359	8,469	212	-	7,130	69,551
Reinsurers' share of claims outstanding	-	59,765	34,808	14	-	15,642	110,229
Cash and cash equivalents	-	-	-	-	-	31,487	31,487
Total Credit risk	**354,045**	**178,286**	**178,912**	**55,314**	**3,874**	**54,272**	**824,703**

2014	**AAA £'000**	**AA £'000**	**A £'000**	**BBB £'000**	**BBB or less £'000**	**Not rated £'000**	**Total £'000**
Debt securities and other fixed income securities	348,578	103,019	132,439	38,028	1,627	2,314	626,005
Overseas deposits as investments	39,264	7,887	5,692	473	-	6,041	59,357
Reinsurers' share of claims outstanding	-	73,740	31,857	-	-	22,756	128,353
Cash and cash equivalents	-	-	-	-	-	38,942	38,942
Total Credit risk	**387,842**	**184,646**	**169,988**	**38,501**	**1,627**	**70,053**	**852,657**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

2. Risk management (continued)

(b) Credit risk (continued)

Aging and impairment

2015	Neither due nor impaired £'000	Up to three months £'000	Three to six months £'000	Six months to one year £'000	Greater than one year £'000	Total £'000
Debt securities	613,436	-	-	-	-	613,436
Overseas deposits	69,551	-	-	-	-	69,551
Reinsurers' share of						
claims outstanding	110,229	-	-	-	-	110,229
Reinsurance debtors	-	6	10	12	5,612	5,640
Cash at bank and in						
hand	31,487	-	-	-	-	31,487
Insurance debtors	89,427	-	-	-	-	89,427
Other debtors	2,286	-	-	-	-	2,286
Total credit risk	916,416	6	10	12	5,612	922,056

2014	Neither due nor impaired £'000	Up to three months £'000	Three to six months £'000	Six months to one year £'000	Greater than one year £'000	Total £'000
Debt securities	626,006	-	-	-	-	626,006
Overseas deposits	59,357	-	-	-	-	59,357
Reinsurers' share of						
claims outstanding	128,353	-	-	-	-	128,353
Reinsurance debtors	-	32	25	28	5,830	5,915
Cash at bank and in hand	38,942	-	-	-	-	38,942
Insurance debtors	72,715	-	-	-	-	72,715
Other debtors	11,708	-	-	-	-	11,708
Total credit risk	937,081	32	25	28	5,830	942,996

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

2. Risk management (continued)

(c) Liquidity risk

Liquidity Risk is the risk that the Syndicate, although solvent, either does not have sufficient cash and short-term financial resources available to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost. The primary liquidity risk is the obligation to pay claims to policyholders as they fall due. The Syndicate manages liquidity risk through regular cash flow forecasts, access to notional cash pooling arrangements for short term liquidity management and consultation with the Syndicate treasury functions

The next two tables summarise the carrying amount at reporting date of financial instruments analysed by maturity date.

2015

Maturity	No Maturity stated £'000	<1yr £'000	>lyr £'000	Total £'000
Creditors	29,315	29,991	-	59,306
Total liquidity risk	29,315	29,991	-	59,306

2014

Maturity	No Maturity stated £'000	<1yr £'000	>lyr £'000	Total £'000
Creditors	33,231	34,281	-	67,512
Total liquidity risk	33,231	34,281	-	67,512

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

2. Risk management (continued)

(d) Interest risk rate risk

Interest rate risk arises primarily from investments in fixed interest securities. In addition, to the extent, that claims inflation is correlated to interest rates, liabilities to policyholders are exposed to interest rate risk.

The Syndicate's interest rate risk is monitored by calculating the mean duration of the investment portfolio against an agreed benchmark aligned to the liabilities to policyholders under insurance contracts. The mean duration is an indicator of the sensitivity of the assets and liabilities to changes in current interest rates. The mean duration of the liabilities is determined by means of projecting expected cash flows using standard actuarial claims projection techniques. This is calculated in a consistent manner with the prior year.

Sensitivity analysis

Changes in interest yields, with all other variables constant, would result in changes in the capital value of debt securities and borrowings as well as subsequent interests receipts and payments. This would affect reported profits and net assets as indicated in the table below:

	Impact on profit after tax		Impact on net assets	
	2015	2014	2015	2014
	£'000	£'000	£'000	£'000
50 basis points increase	(9,143)	(8,862)	(9,143)	(8,862)
50 basis points decrease	9,159	8,799	9,159	8,799

(e) Currency risk

The Syndicate manages its foreign exchange risk through the active matching of assets and liabilities within the major currencies held. The Syndicate is primarily exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than USD. The most significant currencies to which the Syndicate is exposed to are Euro, Australian dollar, US dollar, Canadian dollar and pound sterling.

The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

2015

	GBP £'000	USD £'000	EUR £'000	CAD £'000	AUD £'000	TOTAL £'000
Financial investments	112,377	436,766	46,151	18,142	-	613,436
Reinsurers' share of technical						
provisions	27,825	108,493	5,014	(293)	982	142,021
Insurance and Reinsurance						
receivables	18,792	92,777	4,919	948	2,111	119,547
Cash and cash equivalents	14,695	30,207	3,823	2,103	50,209	101,037
Other asetts	6,474	22,344	3,619	143	1,544	34,124
Total assets	**180,163**	**690,587**	**63,526**	**21,043**	**54,846**	**1,010,165**
Technical provisions	(171,708)	(460,448)	(65,048)	(7,457)	(31,593)	(736,254)
Insurance and reinsurance payables	(4,625)	(26,486)	1,576	(1,257)	1,137	(29,655)
Other creditors	(3,969)	(15,343)	(529)	(137)	(13,753)	(33,731)
Total Liabilities	**(180,302)**	**(502,277)**	**(64,001)**	**(8,851)**	**(44,209)**	**(799,640)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

2. Risk management (continued)

(e) Currency risk (continued)

2014

	GBP £'000	USD £'000	EUR £'000	CAD £'000	AUD £'000	TOTAL £'000
Financial investments	101,088	459,855	49,014	16,048	-	626,005
Reinsurers' share of technical provisions	17,196	129,279	4,022	(681)	1,233	151,049
Insurance and Reinsurance receivables	16,931	81,130	5,561	1,481	4,967	110,070
Cash and cash equivalents	54,859	21,385	4,410	4,099	13,547	98,300
Other asetts	13,850	21,245	2,977	335	2,736	41,143
Total assets	203,924	712,894	65,984	21,282	22,483	1,026,567
Technical provisions	(172,602)	(477,269)	(62,972)	(9,379)	(27,602)	(749,824)
Insurance and reinsurance payables	(3,347)	(29,784)	2,004	(1,549)	(1,320)	(33,996)
Other creditors	(20,274)	(14,223)	(2,073)	(149)	(201)	(36,920)
Total Liabilities	(196,223)	(521,276)	(63,041)	(11,077)	(29,123)	(820,740)

Sensitivity analysis

Fluctuations in the Syndicate's trading currencies against the USD would result in a change to profit after tax and net assets value.

The table below gives an indication of the impact on profit after tax and net assets of a percentage change in the relative strength of the Euro against the value of pound sterling, the Canadian dollar and the US dollar, simultaneously. The analysis is based on current information.

	Impact on profit after tax		Impact on net assets	
Changes to sterling, Canadian dollar and US dollar relative to Euro	**2015 £'000**	**2014 £'000**	**2015 £'000**	**2014 £'000**
Euro weakens 20% against other countries	2,322	2,580	35,088	34,304
Euro weakens 10% against other countries	1,267	1,407	19,139	18,711
Euro strengthens 10% against other countries	(1,548)	(1,720)	(23,392)	(22,869)
Euro strengthens 20% against other countries	(3,483)	(3,870)	(52,631)	(51,456)

(f) Operational Risk

This is the risk of loss resulting from inadequate or failed internal processes and systems, or from external events.

(g) Capital Framework at Lloyd's

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

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

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. This financial does not disclose the capital requirement for the Syndicate. Details on the value of Funds at Lloyd's and Funds in Syndicate maybe found in note 20: Funds at Lloyd's and Funds in Syndicate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

3. Segmental Analysis

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

2015	**Gross premiums written £'000**	**Gross premiums earned £'000**	**Gross claims incurred £'000**	**Net operating expenses £'000**	**Reinsurance Balance £'000**	**Total £'000**
Direct insurance:						
Accident and health	(24)	(24)	4,236	8	(1,592)	2,628
Motor (other classes)	-	-	368	-	(1,289)	(921)
Marine aviation and transport	100,566	95,697	(39,825)	(32,976)	(8,915)	13,981
Fire and other damage to property	50,513	50,179	(18,779)	(20,650)	(3,013)	7,737
Third party liability	35,656	37,592	(37,981)	(13,481)	2,351	(11,519)
Other	31,782	24,335	(8,976)	(7,069)	(9,498)	(1,208)
Reinsurance acceptances	99,158	104,443	(51,977)	(40,013)	(12,632)	(179)
Total	317,651	312,222	(152,934)	(114,181)	(34,588)	10,519

2014	**Gross premiums written £'000**	**Gross premiums earned £'000**	**Gross claims incurred £'000**	**Net operating expenses £'000**	**Reinsurance Balance £'000**	**Total £'000**
Direct insurance:						
Accident and health	53	208	660	(227)	(114)	527
Motor (other classes)	-	16	(353)	-	970	633
Marine aviation and transport	87,022	92,482	(31,373)	(30,553)	(11,248)	19,308
Fire and other damage to property	48,503	50,453	(25,202)	(19,094)	(55)	6,102
Third party liability	38,939	39,573	(42,808)	(11,705)	(7,845)	(22,785)
Other	22,150	17,412	(13,462)	(4,969)	590	(429)
Reinsurance acceptances	105,347	96,147	(51,620)	(34,600)	(15,649)	(5,722)
Total	302,014	296,291	(164,158)	(101,148)	(33,351)	(2,366)

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

4. Movement in Prior Year's Provision for Claims

An overall release of prior year's provisions for claims during the year of approximately £37.6m (2014: strengthening of £0.3m) was primarily driven by the favourable experience on the Marine accounts in Aviation and Marine of £54.7m (2014: release of £15.8m), and Property and Fire release of £5.3m (2014: release of £3.6m).This is offset by the adverse experience on the Public Liability accounts in Third Party Liability of £23.4m (2014: strengthening of £20.8m).

5. Net Operating Expenses

	2015 £'000	**2014 £'000**
Acquisition costs	57,455	54,573
Members' standard personal expenses	2,705	2,353
Change in deferred acquisition costs	(385)	(868)
Administrative expenses	62,120	52,658
Reinsurers' commissions	(7,715)	(7,568)
	114,180	101,148

Total acquisition costs for direct insurance accounted for by the Syndicate during the yearamounted to £41.4m (2014: £36.0m). Administrative expenses include:

	2015 £'000	**2014 £'000**
Audit Services:		
Fees payable to the Syndicate's auditor for the audit of the Syndicate's accounts	86	91
Non-audit Services		
Fees payable to the Syndicate's auditor for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	187	195
	273	286

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

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.

7. Emoluments of the Directors of Catlin Underwriting Agencies Limited.

XL Services UK Ltd. charged the Syndicate the following amounts in respect of aggregate emoluments paid to the directors of Catlin Underwriting Agencies Ltd:

	2015 £'000	2014 £'000
Aggregate emoluments	144	478

8. Active Underwriter's Emoluments

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

	2015 £'000	2014 £'000
Aggregate emoluments	144	283

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NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

9. Investment Return

	2015 £'000	2014 £'000
Investment income		
Income from financial investments	19,483	18,465
Gains on the realisation of investments	-	2,944
	19,483	21,409
Investment expenses and charges		
Investment management expenses	(1,590)	(1,490)
Losses on the realisation of investments	(2,231)	(2,760)
	(3,821)	(4,250)
Net unrealised (losses)/gains on investments	(12,852)	339
Investment return	2,810	17,498
Transferred to the technical account	1,805	12,061
Retained in the non-technical account	1,005	5,437
	2,810	17,498

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 2015

10. Other Financial Investments

	Market value		Cost	
	2015 £'000	**2014 £'000**	**2015 £'000**	**2014 £'000**
Debt securities and other fixed income securities	613,436	626,006	631,541	623,550

Member's Funds in Syndicate held within the premium trust funds are £243.7m (2014: £210.3m).

The Syndicate does not hold any listed investments in its portfolio.

Fair Value Hierarchy

The Syndicate has chosen to early adopt the 'Amendments to FRS 102 on Fair value hierarchy disclosures', issued in March 2016.

The categorising of these assets is defined as follows:

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

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

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

The table below analyses the Syndicate's financial instruments measured at fair value at 31 December 2015 and 31 December 2014.

2015	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Debt securities and other fixed income securities	-	613,436	-	613,436
Loans and deposits with credit institutions	14,172	55,379	-	69,551
Total	14,172	668,815	-	682,987

2014	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Debt securities and other fixed income securities	-	626,006	-	626,006
Loans and deposits with credit institutions	12,507	46,850	-	59,357
Total	12,507	672,856	-	685,363

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

11. Technical Provisions

2015	Provision for unearned premium £'000	Claims outstanding £'000
Gross technical provisions		
At 1 January	162,419	587,406
Movement in the provision	(5,429)	(36,966)
Foreign exchange movements	19,663	9,161
At 31 December	176,653	559,601
Reinsurers' share of technical provisions		
At 1 January	22,695	128,353
Movement in the provision	8,291	(21,206)
Foreign exchange movements	806	3,082
At 31 December	31,792	110,229
Net technical provisions		
At 1 January	139,724	459,053
At 31 December	144,861	449,372

2014	Provision for unearned premium £'000	Claims outstanding £'000
Gross technical provisions		
At 1 January	145,131	574,782
Movement in the provision	(5,723)	(4,371)
Foreign exchange movements	23,011	16,995
At 31 December	162,419	587,406
Reinsurers' share of technical provisions		
At 1 January	16,454	136,908
Movement in the provision	5,930	(14,900)
Foreign exchange movements	311	6,345
At 31 December	22,695	128,353
Net technical provisions		
At 1 January	128,677	437,874
At 31 December	139,724	459,053

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

11. Technical Provisions (Continued)

Claims development tables

Gross ultimate claims	**2010 & prior £'000**	**2011 £'000**	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**Total £'000**
Total							
12 months		200,456	93,034	78,100	87,584	77,295	
24 months		227,784	182,219	174,903	178,234		
36 months		223,973	184,049	170,759			
48 months		211,719	177,651				
60 months		223,588					
Gross ultimate claims	4,895,129	223,588	177,651	170,759	178,234	77,295	5,722,656
Cumulative payments to date	(4,703,873)	(167,210)	(106,725)	(94,436)	(73,560)	(17,251)	(5,163,055)
Gross claims liability	191,256	56,378	70,926	76,323	104,674	60,044	559,601

Net ultimate claims	**2010 & prior £'000**	**2011 £'000**	**2012 £'000**	**2013 £'000**	**2014 £'000**	**2015 £'000**	**Total £'000**
Total							
12 months		176,053	85,533	67,333	68,920	60,663	
24 months		178,162	161,468	155,156	145,524		
36 months		169,378	165,678	151,302			
48 months		158,440	160,199				
60 months		166,205					
Net ultimate claims	3,413,197	166,205	160,199	151,302	145,524	60,663	4,097,090
Cumulative payments to date	(3,270,002)	(116,754)	(97,368)	(85,299)	(62,591)	(15,704)	(3,647,718)
Net claims liability	143,195	49,451	62,831	66,003	82,933	44,959	449,372

12. Debtors Arising out of Direct Insurance Operations

	2015 £'000	**2014 £'000**
Due within one year	89,427	72,715

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

13. Debtors Arising out of Reinsurance Operations

	2015 £'000	2014 £'000
Due within one year	30,120	37,355

14. Other Debtors

	2015 £'000	2014 £'000
VAT receivable	157	146
Other taxes payable	1	9
Amounts due from group undertakings	2,128	11,552
Total Other debtors	2,286	11,707

15. Overseas Deposits

	2015 £'000	2014 £'000
Illinois — USA	3,506	1,419
Joint Asset Trust Fund — USA	1,398	1,357
Australian Deposit	49,184	40,262
Joint Asset Trust Fund —Australia	2,364	2,602
South African Deposit	213	473
Additional Securities Limited:		
Other Countries	7,129	6,041
Kentucky—USA	4,298	5,441
Canadian Margin Fund	1,459	1,762
	69,551	59,357

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 2015

16. Deferred Acquisition Costs

	2015 £'000	2014 £'000
On insurance contracts	31,396	29,436

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

	2015 £'000	2014 £'000
At 1 January	29,436	27,813
Foreign exchange due to FRS transition	-	755
Expenses for the acquisition of contracts deferred during the year	385	868
Foreign exchange losses	1,575	-
At 31 December	31,396	29,436

17. Creditors Arising out of Direct Insurance Operations

	2015 £'000	2014 £'000
Due within one year	2,909	4,840

18. Creditors Arising out of Reinsurance Operations

	2015 £'000	2014 £'000
Due within one year	26,746	29,156

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

19. Related Parties Transactions

Managing agency fees of £300,000 were paid by the Syndicate during 2015 (2014: £300,000). This is split between XLLM, the managing agent for the Syndicate until 5 May 2015 (£103,000) and CUAL, the current managing agent (£197,000). The amount due from other XL Group entities to the Syndicate as at year-end is £1.5m (2014: £1.7m).

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 2015, the Syndicate increased the amount of reinsurance placed with XL Insurance (Bermuda) Ltd ("XLIB") to 22% (2014: 12%) of its overall reinsurance spend. The increase is largely due to an internal Quota Share agreement with XLIB, ceding business on the Product Recall, Design Professional, International Financial Lines and International Energy classes to reduce the net retentions to be within the Syndicate Risk Appetite.

Reinsurance recoveries from XLIB on paid claims were approximately 21% of Syndicate 1209's reinsurance recoveries on paid claims (2014:24%) and reinsurance reserve recoveries from XLIB were approximately 13% of Syndicate 1209's reserved recoveries for both 2015 and 2014.

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.

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.

Since 2014 the Syndicate has entered into a 100% Quota Share Reinsurance treaty agreement with XL Insurance Guernsey Ltd ("XLIG") where all XLIG Kidnap and Ransom and Specie business is ceded to the Syndicate.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

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 Prudential Regulatory Authority ("PRA") 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 2015, the value of FAL is £82.0m (2014: £78.5m) and FIS is £243.7m (2014: £210.3m).

21. Ultimate Parent

CUAL, the managing agent of the Syndicate, is a company registered in England and Wales. CUAL is a wholly-owned subsidiary of XL Group plc, a company registered in the Republic of Ireland. Copies of the financial statements of both CUAL and XL Group plc are available from 20 Gracechurch Street, London, EC3V OBG.

22. Transition to FRS 102 — Reconciliations

This is the first year that the Syndicate has presented its results under FRS 102. The last financial statements under previous UK GAAP were for the year ended 31 December 2014. The date of transition to FRS 102 was 1 January 2014. Set out below are the changes in accounting policies which reconcile the Syndicate profit for the financial year ended 31 December 2014 and the equity as at 1 January 2014 and 31 December 2014 between UK GAAP as previously reported and FRS 102.

Reconciliation of profit

	2014 £'000
Technical Accounts	
UK GAAP - as previously reported	19,376
Foreign exchange reclass to non-technical account	(9,681)
Balance on technical account	9,695
Non-technical Accounts	
Non-technical account income	5,437
Foreign exchange due to FRS transition	(9,333)
Foreign exchange from technical account	6,979
Balance on non-technical account	12,778
Other comprehensive income	2,702
FRS 102 balance/Total Comprehensive Income	15,480

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

22. Transition to FRS 102 - Reconciliations (continued)

Reconciliation of equity

Assets		**1 January 2014**			**31 December 2014**	
	UK GAAP £'000	**Effect of transition £'000**	**FRS £'000**	**UK GAAP £'000**	**Effect of transition £'000**	**FRS £'000**
Financial Investments						
Other Financial Investments	552,678		552,678	626,006		626,006
Reinsurers' share of technical provisions						
Claims outstanding	136,908		136,908	128,353		128,353
Unearned premiums	17,210	(757)	16,453	23,140	(445)	22,695
	154,118	**(757)**	**153,361**	**151,493**	**(445)**	**151,048**
Debtors due within one year						
Debtors arising out of direct operations	86,894		86,894	72,715		72,715
Debtors arising out of reinsurance operations	17,844		17,844	37,355		37,355
Other debtors	10,596		10,596	11,707		11,707
	115,334		**115,334**	**121,777**		**121,777**
Other Assets						
Cash at bank and in hand	39,890		39,890	38,943		38,943
Overseas deposits	67,546		67,546	59,357		59,357
	107,436		**107,436**	**98,300**		**98,300**
Prepayments and accrued Income						
Deferred acquisition costs	27,813	(1,217)	26,596	28,682	754	29,436
Total assets	**957,379**	**(1,974)**	**955,405**	**1,026,258**	**309**	**1,026,567**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the Year ended 31 December 2015

22. Transition to FRS 102 - Reconciliations (continued)

Reconciliation of equity (continued)

Liabilities		1 January 2014			31 December 2014	
	UK GAAP £'000	**Effect of transition £'000**	**FRS £'000**	**UK GAAP £'000**	**Effect of transition £'000**	**FRS £'000**
Capital and reserves						
Balance due tol(from) members	(192,359)	(4,570)	(196,929)	(210,587)	4,762	(205,825)
Technical provisions						
Provisions for unearned premiums	(151,562)	6,431	(145,131)	(157,293)	(5,126)	(162,419)
Claims outstanding	(574,782)		(574,782)	(587,406)		(587,406)
	(726,344)	**6,431**	**(719,913)**	**(744,699)**	**(5,126)**	**(749,825)**
Creditors due within one year						
Creditors arising out of direct insurance operations	(2,993)		(2,993)	(4,840)		(4,840)
Creditors arising out of reinsurance operations	(32,890)		(32,890)	(29,156)		(29,156)
Amounts owed to credit institutions				(33,231)		(33,231)
Other creditors including taxation	(175)		(175)	(285)		(285)
	(36,058)		**(36,058)**	**(67,512)**		**(67,512)**
Accruals and deferred income	(2,618)	113	(2,505)	(3,460)	55	(3,405)
Total Liabilities	**(957,379)**	**1,974**	**(955,405)**	**(1,026,258)**	**(309)**	**(1,026,567)**

The principal changes are explained below.

Foreign exchange

FRS 103 requires that all assets and liabilities arising from an insurance contract are treated as monetary items for foreign currency translation purposes. Previously, balances such as unearned premiums and deferred acquisition costs were treated as non-monetary items. This had the impact of increasing total equity by £4.6m upon transition and increasing statement of profit or loss by £9.3m for the year ended 31 December 2014 (£9.3m increase in profit or loss and £nil in other comprehensive income).

With the adoption of FRS 102, we have reclassed the foreign exchange previously recognised in the technical balances to non¬technical balances and have identified the movement between functional and presentational currencies together with foreign exchange differences on opening and closing net assets and member's balances to other comprehensive income.