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**SYNDICATE 1209**

**ANNUAL REPORT AND ACCOUNTS**

**YEAR ENDED  
31 DECEMBER 2017**

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## FINANCIAL HIGHLIGHTS

Key Performance Indicators (KPIs)	2017	<i>Restated 2016</i>
Syndicate capacity (£m)*	—	—
Gross premiums written (£m)	<b>2.4</b>	36.6
Net premium written (£m)	—	32.8
Earned premiums, net of reinsurance (£m)	<b>25.4</b>	158.8
Underwriting result (£m)	<b>11.1</b>	10.5
<b>Profit for the financial year (£m)</b>	<b>23.1</b>	26.4
Claims ratio	24.7%	63.8%
Expense ratio	31.7%	29.6%
Combined ratio	56.4%	93.4%
Investment return	7.2%	1.7%

\*2015 underwriting year is the Syndicate's last year of participation.

**MANAGING AGENT'S REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2017**

The Syndicate's last underwriting year participation was 2015.

**Principal activities**

The principal activity of the Syndicate 1209 ("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 8 and 9, shows an underwriting result (net earned premiums less net claims incurred and net operating expenses) for the financial year is £11.1m (2016: £10.5m).

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

Details of business written by class of business are shown in note 4: Segmental Analysis, in the notes to the financial statements.

**Strategy and future outlook**

2015 underwriting year is the Syndicate's last year of participation. As from 1 January 2018, it will be closed by Reinsurance to Close ("RITC") into Syndicate 2003.

On the 5 March 2018, XL Group Ltd, the ultimate parent of CUAL, announced that it had entered into an agreement to be acquired by AXA. This all-cash offer of \$57.60 per share deal is subject to shareholder approval, regulatory clearances and other customary closing conditions. The acquisition is expected to complete in the second half of 2018.

**Underwriting volumes**

An analysis of the Syndicate's underwriting by class of business is set out in note 4: 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 Ltd ("XL"), a company registered in Bermuda. Copies of the financial statements of both CUAL and XL Group Ltd are available from 20 Gracechurch Street, London, EC3V 0BG. The Syndicate is wholly-aligned with capital provided by XL Catlin through a subsidiary.

**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' in note 2.

This report was approved by the board and signed on its behalf by:

**P Bradbrook**  
Director  
16 March 2018

**MANAGING AGENT'S REPORT (continued)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

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 Bradbrook		
P Greensmith		
P Jardine		
R Glauber	(Non-Executive)	
B Joseph	(Non-Executive)	
P Wilson	(Non-Executive)	
C Ighodaro	(Non-Executive)	Appointed 12 January 2017
R Littlemore		Appointed 4 July 2017
J Vereker	(Non-Executive)	Appointed 12 September 2017
A McMellin		Resigned 1 January 2017
J Gale		Resigned 1 January 2017
S Catlin	(Non-Executive)	Resigned 30 June 2017
J Harris		Resigned 30 June 2017

**Active underwriter**

In 2017, there is no active underwriter.

**Company secretary**

M L Rees is the company secretary.

**Annual general meeting**

CUAL has advance consent not to hold an annual general meeting during 2017. 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 (2016: £Nil).

**Registered office**

The registered office of CUAL is 20 Gracechurch Street, London, EC3V 0BG. 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 THE MANAGING AGENT'S RESPONSIBILITIES  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**Statement of managing agent's responsibilities**

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 these Syndicate annual accounts, the directors of the managing agent are 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 2017 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 Limited and signed on its behalf by:

**M L Rees**

Company Secretary

16 March 2018

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 1209****Report on the Syndicate annual accounts****Opinion**

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

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 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, (United Kingdom Accounting Standards comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland); and
- have been prepared in accordance with the requirements of The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

We have audited the syndicate annual accounts included within the Syndicate 1209 Annual Report and Accounts (the "Annual Report"), which comprise: the statement of financial position at 31 December 2017, 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 members' 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.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 and other applicable law.

Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the syndicate annual accounts section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*

We remained independent of the syndicate in accordance with the ethical requirements that are relevant to our audit of the syndicate annual accounts in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the managing agent's use of the going concern basis of accounting in the preparation of the syndicate annual accounts is not appropriate; or
- the managing agent has not disclosed in the syndicate annual accounts any identified material uncertainties that may cast significant doubt about the syndicate's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the syndicate annual accounts are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the syndicate's ability to continue as a going concern.

**Reporting on other information**

The other information comprises all of the information in the Annual Report other than the syndicate annual accounts and our auditors' report thereon. The managing agent is responsible for the other information. Our opinion on the syndicate annual accounts does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the syndicate annual accounts, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the syndicate annual accounts or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the syndicate annual accounts or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.



**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SYNDICATE 1209 (CONTINUED)**

With respect to the Managing Agent's Report, we also considered whether the disclosures required by Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

*Managing Agent's Report*

In our opinion, based on the work undertaken in the course of the audit, the information given in the Managing Agent's Report for the year ended 31 December 2017 is consistent with the syndicate annual accounts and has been prepared in accordance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

In light of the knowledge and understanding of the syndicate and its environment obtained in the course of the audit, we did not identify any material misstatements in the Managing Agent's Report.

**Responsibilities for the syndicate annual accounts and the audit***Responsibilities of the managing agent for the syndicate annual accounts*

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 in accordance with the applicable framework and for being satisfied that they give a true and fair view. The managing agent is also responsible for such internal control as they determine is necessary to enable the preparation of syndicate annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the syndicate annual accounts, the managing agent is responsible for assessing the syndicate's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless it is intended for the syndicate to cease operations, or it has no realistic alternative but to do so.

*Auditors' responsibilities for the audit of the syndicate annual accounts*

Our objectives are to obtain reasonable assurance about whether the syndicate annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these syndicate annual accounts.

A further description of our responsibilities for the audit of the syndicate annual accounts is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

*Use of this report*

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 Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017 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 MEMBERS OF SYNDICATE 1209 (CONTINUED)****Other required reporting****Other matters on which we are required to report by exception**

Under The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, as amended by The Statutory Auditors and Third Country Auditors Regulations 2017, 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
- certain disclosures of managing agent remuneration specified by law are not made; or
- the syndicate annual accounts are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

**Matthew Nichols (Senior Statutory Auditor)**

For and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

London

16 March 2018

**STATEMENT OF PROFIT OR LOSS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £000's	<i>Restated</i> 2016 £000's
<b>TECHNICAL ACCOUNT - GENERAL BUSINESS</b>			
Gross premiums written			
Continuing operations	4	2,444	36,649
Outward reinsurance premiums		(2,479)	(3,867)
<b>Net premiums written</b>		<u>(35)</u>	<u>32,782</u>
Change in the gross provision for unearned premiums	11	29,781	155,154
Change in the provision for unearned premiums, reinsurers' share	11	(4,279)	(29,100)
Change in the net provision for unearned premiums		<u>25,502</u>	<u>126,054</u>
<b>Earned premiums, net of reinsurance</b>		25,467	158,836
<b>Allocated investment return transferred from the non-technical account</b>	9	29,165	10,307
<b>TOTAL TECHNICAL INCOME</b>		<u>54,632</u>	<u>169,143</u>
<b>Claims paid</b>			
Gross amount		(146,540)	(183,395)
Reinsurers' share		27,103	33,081
		<u>(119,437)</u>	<u>(150,314)</u>
<b>Change in the provision for claims</b>			
Gross amount	11	124,304	70,658
Reinsurers' share	11	(11,169)	(21,699)
		<u>113,135</u>	<u>48,959</u>
<b>Claims incurred, net of reinsurance</b>	4	(6,302)	(101,355)
<b>Net operating expenses</b>	4 & 8	(8,065)	(46,938)
<b>TOTAL CHARGES</b>		<u>(14,367)</u>	<u>(148,293)</u>
<b>BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS</b>		<u>40,266</u>	<u>20,850</u>
Attributable to:			
Continuing operations		<u>40,266</u>	<u>20,850</u>

**STATEMENT OF PROFIT OR LOSS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £000's	<i>Restated</i> 2016 £000's
<b>NON-TECHNICAL ACCOUNT</b>			
Balance on the general business technical account		<u>40,266</u>	<u>20,850</u>
Investment income	9	34,237	20,644
Unrealised gains on investments	9	21,461	9,638
Investments expenses and charges	9	(22,118)	(7,359)
Unrealised losses on investments	9	(4,414)	(12,616)
		<u>29,166</u>	<u>10,307</u>
Allocated investment return transferred to the general business technical account	9	(29,166)	(10,307)
(Loss)/Gain on foreign exchange		(17,119)	5,573
<b>Profit for the financial year</b>		<u>23,147</u>	<u>26,423</u>

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £000's	<i>Restated</i> 2016 £000's
<b>NON-TECHNICAL ACCOUNT</b>			
Profit for the financial year		23,147	26,423
Exchange Gain/(Loss) on translations		988	(4,053)
<b>Total comprehensive income for the year</b>		<u><u>24,135</u></u>	<u><u>22,370</u></u>

**STATEMENT OF FINANCIAL POSITION - ASSETS  
AS AT 31 DECEMBER 2017**

	Notes	2017 £000's	<i>Restated</i> 2016 £000's
<b>ASSETS</b>			
<b>Investments</b>			
Other financial investments	10	<u>235,842</u>	<u>350,972</u>
<b>Reinsurers' share of technical provisions</b>			
Provision for unearned premiums	11	2,959	7,202
Claims outstanding	11	<u>85,700</u>	<u>104,838</u>
		<u>88,659</u>	<u>112,040</u>
<b>Debtors</b>			
Debtors arising out of direct insurance operations	13	13,358	33,601
Debtors arising out of reinsurance operations	14	9,215	21,773
Other debtors	15	<u>2,236</u>	<u>2,458</u>
		<u>24,809</u>	<u>57,832</u>
<b>Other assets</b>			
Cash at bank and in hand		28,119	64,719
Overseas deposits	16	<u>53,963</u>	<u>77,653</u>
		<u>82,082</u>	<u>142,372</u>
<b>Prepayments and accrued income</b>			
Deferred acquisition costs	17	2,453	8,853
Other prepayments and accrued income		-	50
		<u>2,453</u>	<u>8,903</u>
<b>TOTAL ASSETS</b>		<u><u>433,845</u></u>	<u><u>672,119</u></u>

**STATEMENT OF FINANCIAL POSITION - CAPITAL AND LIABILITIES  
AS AT 31 DECEMBER 2017**

	Notes	2017 £000's	<i>Restated</i> 2016 £000's
<b>LIABILITES</b>			
Member's balance		<u>(21,816)</u>	<u>(19,115)</u>
<b>Technical provisions</b>			
Provision for unearned premiums	11	13,908	44,624
Claims outstanding	11	<u>419,459</u>	<u>571,429</u>
		<b>433,367</b>	<b>616,053</b>
<b>Creditors</b>			
Creditors arising out of direct insurance operations	18	3,971	3,509
Creditors arising out of reinsurance operations	19	1,791	30,221
Amounts owed to credit institutions		14,981	39,256
Other creditors including taxation	20	<u>417</u>	<u>677</u>
		<b>21,160</b>	<b>73,663</b>
<b>Accruals and deferred income</b>		<b>1,134</b>	<b>1,518</b>
<b>TOTAL CAPITAL AND LIABILITIES</b>		<u><b>433,845</b></u>	<u><b>672,119</b></u>

The notes on pages 14 to 37 form part of these financial statements.

The Syndicate financial statements were approved by the Board of Directors of Catlin Underwriting Agencies Limited and were signed on its behalf by:

**P Bradbrook**  
Director  
16 March 2018

**STATEMENT OF CHANGES IN MEMBER'S BALANCES  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Balance attributable to underwriting £000's	Funds in Syndicate £000's	Total £000's
<b>Balance as at 1 January 2016</b>	<b>(33,241)</b>	<b>243,766</b>	<b>210,525</b>
Profit distribution - 2013 year of account	(8,244)	—	(8,244)
Transfer out of Funds in Syndicate	—	(243,766)	(243,766)
Profit for the financial year	22,370	—	22,370
<b>Balance as at 31 December 2016</b>	<b>(19,115)</b>	<b>—</b>	<b>(19,115)</b>
Profit distribution - 2014 year of account	(29,705)	—	(29,705)
FX on restatement of prior years result	2,869	—	2,869
Total comprehensive income	24,135	—	24,135
<b>Balance as at 31 December 2017</b>	<b>(21,816)</b>	<b>—</b>	<b>(21,816)</b>

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

	2017	<i>Restated</i>
Note	£000's	2016 £000's
<b>Reconciliation of profit to net cash inflow from operating activities</b>		
Operating result	23,145	26,423
(Decrease) in gross technical provisions	(182,685)	(120,202)
Decrease in reinsurers' share of gross technical provisions	23,382	29,981
Decrease in debtors	39,473	88,453
Increase / (Decrease) in creditors	(27,478)	(134)
Increase/ (Decrease) in overseas deposits *	23,689	(8,101)
Investment return	9 (29,165)	(10,307)
<b>Net cash (used in)/ generated from operating activities</b>	<b>(129,639)</b>	<b>6,113</b>
<b>Cash flow from investing activities</b>		
Purchase of equity and debt instruments	(222,608)	(310,322)
Sale of equity and debt instruments	290,249	331,041
Investment income received	12,119	13,285
<b>Net cash generated from investing activities</b>	<b>79,760</b>	<b>34,004</b>
<b>Cash flow from financing activities</b>		
Distribution of closed year's profit	(29,704)	(8,244)
Added to Funds in Syndicate	—	—
Draw down of Funds in Syndicate	—	56,798
Member's service charge	—	—
<b>Net cash used in financial activities</b>	<b>(29,704)</b>	<b>48,554</b>
<b>Net increase in cash and cash equivalents</b>	<b>(79,583)</b>	<b>88,671</b>
Cash and cash equivalents at beginning of year	25,463	2,642
Effect of exchange rate changes on cash and cash equivalents	67,258	(65,850)
Cash and cash equivalents at end of year	<u>13,138</u>	<u>25,463</u>
Cash at bank and in hand	28,119	64,719
Short term deposits with credit institutions	—	—
Overdrafts	(14,981)	(39,256)
<b>Cash and cash equivalents at end of the year</b>	<b><u>13,138</u></b>	<b><u>25,463</u></b>

\* The classification of overseas deposits within other assets initiated the change in overseas deposits to be reflected within net cash inflow outflow generated from operating activities.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**1 ACCOUNTING POLICIES**

**A 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 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 6 - movement in prior year's provision for claims outstanding;  
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 2015 underwriting year have not been prepared, as the Syndicate has taken advantage of the exemption under paragraph 6 of the Regulations.

**B Basis of accounting**

The financial statements have been prepared on a going concern basis, under the accrual basis whereby the incurred cost of claims, commission and related expenses are charged against the earned proportion of premiums, net of reinsurance, as follows:

(a) 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.

Contracts with duration of greater than one year and payable in annual instalments, generally, only the initial annual instalment is included as premiums written at policy inception due to the ability of the (re)insured to commute or cancel coverage during the term of the policy. The remaining annual instalments are included as premiums written at each successive anniversary date within the term.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**1 ACCOUNTING POLICIES (continued)**

*(b) 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.

*(c) Acquisition costs*

Acquisition costs, comprising commission and other internal and external costs related to the acquisition of new business and renewing existing contracts. The proportion of acquisition costs in respect of unearned premiums is deferred at the reporting date and recognised in periods when the related premiums are earned.

*(d) 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.

Insurance contracts are those contracts that transfer significant insurance risk. 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.

*(e) 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.

*(f) 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.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**1 ACCOUNTING POLICIES (continued)**

*(f) Claims provisions and related recoveries (continued)*

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. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

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. 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.

Allowance is made, however, for changes or uncertainties which may create distortions in the underlying statistics or which might cause the cost of unsettled claims to increase or reduce when compared with the cost of previously settled claims including:

- changes in Syndicate processes which might accelerate or slow down the development and/or recording of paid or incurred claims compared with the statistics from previous periods;
- changes in the legal environment;
- the effects of inflation;
- changes in the mix of business;
- the impact of large losses; and
- movements in industry benchmarks.

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.

The amount of any salvage and subrogation recoveries is separately identified and where material, reported as an asset.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**1 ACCOUNTING POLICIES (continued)**

*(f) Claims provisions and related recoveries (continued)*

Provision is made at the year-end for the estimated cost of claims incurred but not settled at the Balance Sheet date, including the cost of claims incurred but not yet reported to the Syndicate. The estimated cost of claims includes expenses to be incurred in settling claims. The Syndicate takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. Any differences between provisions and subsequent settlements are dealt with in the general business technical account of later years.

*(g) 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. The expected claims relate to policies in force at the year-end, having regard to events that occur prior to the balance sheet date.

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.

*(h) Reinsurance to close (RITC)*

Each Lloyd's Syndicate underwriting account is normally closed at the end of the third year by means of reinsurance into the following year, which reinsures all future liabilities for the closed year and all previous years in return for a premium which is approved by the managing agent. The payment of a reinsurance to close premium does not eliminate the liability of the closed year for outstanding claims. If the reinsuring Syndicate was unable to meet its obligations, and other elements of Lloyd's chain of security were to fail, then the closed underwriting account would have to settle the outstanding claims.

The directors consider that the likelihood of such a failure of the reinsurance to close is extremely remote, and consequently the reinsurance to close has been deemed to settle liabilities outstanding at the closure of an underwriting account.

*(i) Financial assets at fair value through the income statement*

All financial assets are designated as fair value through the statement of profit or loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis. 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.

The Syndicate's investment strategy is to invest in listed and unlisted equity securities and fixed interest rate debt securities, and derivatives designated upon initial recognition at fair value through the statement of profit or Loss. Any gains and losses arising from changes in fair value are recognised in the statement of profit or Loss in the period in which they arise.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**1 ACCOUNTING POLICIES (continued)**

**C 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. Net gains or losses arising from changes in the fair value of financial assets are recognised through the statement of profit or loss within 'Unrealised gains on investments' or 'Unrealised losses on investments' in the period in which they arise. Investment return is recorded in the non-technical account within the statement of profit or loss. Dividends are recognised on the date on which the shares go and include the imputed tax credits. Interest income is accrued up to the balance sheet date.

*Realised gains and losses*

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

*Unrealised gains and losses*

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 expenses, charges or interest*

There are accounted for as incurred on an accruals basis.

**D 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.

**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 Statement of Financial Position under the heading "other debtors".

**F 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 2017**

**1 ACCOUNTING POLICIES (continued)**

**G Foreign currencies**

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.

**H 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 less than three months maturity from the date of acquisition. Cash and cash equivalents are measured at fair value through the statement of profit or loss. Bank overdrafts, where applicable, are held within the current liabilities as amounts due to credit institutions.

**I Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that the Syndicate has designated at fair value through the statement of profit or loss. Loans and receivables are carried at amortised cost less any impairment losses.

Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. This basis of valuation is viewed by the directors as having prudent regard to the likely realisable value.

**J Financial liabilities**

Creditors are recognised initially at fair value, net of directly attributable transaction costs. Creditors are subsequently stated at amortised cost determined according to the effective interest rate method.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

## **2 RISK MANAGEMENT**

### **Financial risk management objectives**

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

These risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The risks that the Syndicate primarily faces due to the nature of its investments and liabilities are interest rate, equity price risk and currency risk.

The Syndicate's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Syndicate's financial performance. It manages these positions within a risk management framework ("the framework") that has been developed to ensure that investment proceeds and returns are in excess of obligations under insurance contracts. The Syndicate produces regular reports that are circulated to the management of the Managing Agency. The principal technique of the Syndicate's framework is to match assets and liabilities from insurance contracts by reference to the type of benefits payable to contract holders. The Syndicate's framework is also integrated with the management of the financial risks associated with the syndicate's other financial assets and liabilities not directly associated with insurance liabilities.

The notes that follow explain how financial risks are managed using the categories utilised in the Syndicate's framework.

#### **(a) Insurance risk**

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. Examples of such risks include 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 Catlin strategies, approved by the Board and communicated clearly throughout the business through policy statements and guidelines.

#### **Capital resource sensitivities**

The capital position is sensitive to market conditions due to changes in the value of the assets, and to assumptions and experience in respect of the value of the liabilities. The most significant risks to the Syndicate are as follows:

#### **Event risk**

The risk that individual risk losses or catastrophes lead to claims that are higher than anticipated in plans and pricing.

#### **Pricing risk**

The risk that the level of expected loss is understated in the pricing process.

#### **Reinsurance risk**

Reinsurance risk to the Syndicate occurs where reinsurance contracts put in place to reduce gross insurance risk do not perform as anticipated, prove inadequate in terms of the vertical or horizontal limits purchased or result in coverage disputes.

#### **Cycle risk**

The risk that business is written in a soft market without full knowledge as to the adequacy of rates, terms and conditions.

#### **Expense risk**

The risk that the allowance for expenses and inflation in pricing is inadequate.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**2 RISK MANAGEMENT (continued)**

Underwriting risks are continually monitored through, for example, the established peer review process, underwriting authority limits imposed, 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.

The Syndicate seeks to maintain a diversified and balanced portfolio of risks in order to reduce the variability of outcomes. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected by a change in any subset of the portfolio. This is achieved by accepting a spread of business over time, segmented between different classes of business. The Syndicate business forecasts for each class of business reflect this underwriting strategy, and set out the types of business to be written, the geographical regions in which business is to be written and the industry sectors to which the Syndicate is prepared to expose itself. These plans are approved and monitored by management and are submitted to Lloyd's. The Syndicate's management also recognises that insurance events are, by their nature, random, and the actual number and size of events during any one year may vary from those estimated using established statistical techniques. To address this, the Syndicate's actuarial team sets out the realistic disaster scenario (RDS) exposure that it is prepared to accept in certain territories to a range of natural and man-made events.

Specific scenarios monitored include:

- Two consecutive Atlantic seaboard windstorms
- Florida windstorm
- Gulf of Mexico windstorm
- European windstorm
- Japanese windstorm
- California earthquake
- New Madrid earthquake
- Japanese earthquake
- UK flood

The current aggregate position is monitored at the time of underwriting a risk, and reports are produced to highlight the key aggregations to which the Syndicate is exposed. The Syndicate uses a number of modelling tools to monitor aggregation and to simulate catastrophe losses in order to measure the effectiveness of its reinsurance programmes. Stress and scenario tests are also run using these models. The greatest likelihood of significant losses to the Syndicate arises from catastrophe events, such as flood damage, windstorm or earthquake. Where possible the Syndicate's underwriting team measures geographic accumulations and uses their knowledge of the business, historical loss behaviour and commercial catastrophe modelling software. The Syndicate regularly models and monitors known accumulations of risks including natural catastrophes, marine, liability and political events. Upon application of the reinsurance coverage purchased, the key gross and net exposures are calculated on the basis of a 1 in 200 year event.

Loss development tables providing information about historical claims development are included in note 12.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**2 MANAGEMENT OF FINANCIAL RISK (continued)**

**(b) 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 Catlin 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 Catlin 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.

Market risk includes:

**(i) Interest 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.

The sensitivity analysis for interest rate risk illustrates how changes in the fair value of future cash flows of an interest bearing financial asset will fluctuate because of changes in market interest rates at the reporting date.

**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	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
50 basis points increase	(4,998)	(6,291)	(4,998)	(6,291)
50 basis points decrease	5,090	6,391	5,090	6,391

**(ii) Currency risk**

The Syndicate manages its foreign exchange risk against its functional currency. Foreign exchange arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the Syndicate's functional currency.

The Syndicate is primarily exposed to currency risk in respect of liabilities under policies of insurance denominated in currencies other than US Dollars. The most significant currencies to which the Syndicate is exposed are Pounds Sterling, Canadian Dollar, Euro and Australian Dollar. The Syndicate seeks to mitigate the risk by matching the estimated foreign currency denominated liabilities with assets denominated in the same currency.

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**2 MANAGEMENT OF FINANCIAL RISK (continued)****(b) Market risk (continued)****(ii) Currency risk (continued)****2017**

	<b>GBP</b>	<b>USD</b>	<b>EUR</b>	<b>CAD</b>	<b>AUD</b>	<b>TOTAL</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Financial investments	88,665	127,491	—	19,686	—	235,842
Overseas deposits	2,778	2,849	—	1,387	46,949	53,963
Reinsurers' share of technical provisions	14,282	77,861	(1,701)	(1,755)	(28)	88,659
Insurance and Reinsurance receivables	2,662	18,468	(2,505)	311	3,637	22,573
Cash at bank and in hand	2,933	19,165	1,026	4,944	51	28,119
Other assets	2,428	(84)	977	683	685	4,689
<b>Total assets</b>	<b><u>113,748</u></b>	<b><u>245,750</u></b>	<b><u>(2,203)</u></b>	<b><u>25,256</u></b>	<b><u>51,294</u></b>	<b><u>433,845</u></b>
Technical provisions	(94,802)	(261,476)	(44,660)	(5,541)	(26,888)	(433,367)
Insurance and reinsurance payables	1,393	(12,278)	6,475	(530)	(822)	(5,762)
Other creditors	(6,906)	(2,854)	(3,518)	(298)	(2,956)	(16,532)
<b>Total Liabilities</b>	<b><u>(100,315)</u></b>	<b><u>(276,608)</u></b>	<b><u>(41,703)</u></b>	<b><u>(6,369)</u></b>	<b><u>(30,666)</u></b>	<b><u>(455,661)</u></b>

*Restated 2016*

	<b>GBP</b>	<b>USD</b>	<b>EUR</b>	<b>CAD</b>	<b>AUD</b>	<b>TOTAL</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Financial investments	94,524	176,584	56,421	23,443	—	350,972
Overseas deposits	6,179	10,931	—	2,877	57,666	77,653
Reinsurers' share of technical provisions	20,834	89,207	2,899	(1,476)	576	112,040
Insurance and Reinsurance receivables	10,328	47,611	(3,523)	317	641	55,374
Cash and cash equivalents	28,472	35,044	380	516	307	64,719
Other assets	3,337	5,982	1,305	110	627	11,361
<b>Total assets</b>	<b><u>163,674</u></b>	<b><u>365,359</u></b>	<b><u>57,482</u></b>	<b><u>25,787</u></b>	<b><u>59,817</u></b>	<b><u>672,119</u></b>
Technical provisions	(136,187)	(375,166)	(61,765)	(6,624)	(36,311)	(616,053)
Insurance and reinsurance payables	(4,048)	(34,819)	3,666	(1,021)	2,492	(33,730)
Other creditors	(21,004)	(4,260)	(4,298)	(19)	(11,870)	(41,451)
<b>Total Liabilities</b>	<b><u>(161,239)</u></b>	<b><u>(414,245)</u></b>	<b><u>(62,397)</u></b>	<b><u>(7,664)</u></b>	<b><u>(45,689)</u></b>	<b><u>(691,234)</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**2 MANAGEMENT OF FINANCIAL RISK (continued)**

**(b) Market risk (continued)**

**(ii) Currency risk (continued)**

**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 GBP against the value of Euro, the Canadian dollar and the US dollar, simultaneously. The analysis is based on current information.

	Impact on profit after tax		Impact on net assets	
	2017	Restated 2016	2017	Restated 2016
Changes to euro, Canadian dollar and US dollar relative to Pounds sterling	£000's	£000's	£000's	£000's
GBP weakens 20% against other currencies	(4,185)	3,472	(8,812)	(5,388)
GBP weakens 10% against other currencies	(1,860)	1,543	(3,917)	(2,395)
GBP strengthens 10% against other currencies	1,522	(1,263)	3,204	1,959
GBP strengthens 20% against other currencies	2,790	(2,315)	5,875	3,592

**(c) Credit risk**

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. 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;
- amounts due from insurance intermediaries; and
- amounts due from issuers of debt securities.

The Syndicate manages the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties, and monitoring its exposure to regions, countries and industries. Such risks are subject to regular review.

Changes to the limits on the level of credit risk by category and territory are approved annually by the managing agency Board of Directors. Reinsurance is used to manage insurance risk. This does not, however, discharge the Syndicate's 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 on an ongoing basis by reviewing their financial strength prior to finalisation of any contract. In addition, management assesses the creditworthiness of all reinsurers and intermediaries by reviewing credit grades provided by rating agencies and other publicly available financial information. The recent payment history of reinsurers is also used to update the reinsurance purchasing strategy. In certain circumstances, deposits from reinsurers are also held as collateral.

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

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**2 MANAGEMENT OF FINANCIAL RISK (continued)**

**(c) 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:

<b>2017</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>BBB or less</b>	<b>Not rated</b>	<b>Total</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Debt securities and other fixed income securities	75,829	59,458	44,663	49,836	6,056	—	235,842
Overseas deposits as investments	32,741	10,537	6,153	1,767	—	2,765	53,963
Reinsurers' share of claims outstanding	—	1,538	83,399	(19)	973	(191)	85,700
Cash and cash equivalents	—	—	—	—	—	28,119	28,119
<b>Total Credit risk</b>	<u>108,570</u>	<u>71,533</u>	<u>134,215</u>	<u>51,584</u>	<u>7,029</u>	<u>30,693</u>	<u>403,624</u>
<i>Restated 2016</i>	<i>AAA</i>	<i>AA</i>	<i>A</i>	<i>BBB</i>	<i>BBB or less</i>	<i>Not rated</i>	<i>Total</i>
	<i>£000's</i>	<i>£000's</i>	<i>£000's</i>	<i>£000's</i>	<i>£000's</i>	<i>£000's</i>	<i>£000's</i>
<i>Debt securities and other fixed income securities</i>	<i>232,333</i>	<i>40,558</i>	<i>60,885</i>	<i>15,874</i>	<i>1,322</i>	<i>—</i>	<i>350,972</i>
<i>Overseas deposits as investments</i>	<i>44,145</i>	<i>17,999</i>	<i>8,447</i>	<i>389</i>	<i>—</i>	<i>6,673</i>	<i>77,653</i>
<i>Reinsurers' share of claims outstanding</i>	<i>—</i>	<i>59,569</i>	<i>45,236</i>	<i>1</i>	<i>32</i>	<i>—</i>	<i>104,838</i>
<i>Cash and cash equivalents</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>—</i>	<i>64,719</i>	<i>64,719</i>
<i>Total Credit risk</i>	<u><i>276,478</i></u>	<u><i>118,126</i></u>	<u><i>114,568</i></u>	<u><i>16,264</i></u>	<u><i>1,354</i></u>	<u><i>71,392</i></u>	<u><i>598,182</i></u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**2 MANAGEMENT OF FINANCIAL RISK (continued)**

**(c) Credit risk (continued)**

The Syndicate has insurance and reinsurance debtors that are past due but not considered to be impaired. The syndicate does not currently hold any impaired assets (2016: no impaired assets held).

<b>2017</b>	<b>Neither due nor impaired £000's</b>	<b>Up to three months £000's</b>	<b>Three to six months £000's</b>	<b>Six months to one year £000's</b>	<b>Greater than one year £000's</b>	<b>Total £000's</b>
Debt securities	235,842	—	—	—	—	235,842
Overseas deposits	53,963	—	—	—	—	53,963
Reinsurers' share of claims outstanding	85,700	—	—	—	—	85,700
Reinsurance debtors	—	1,090	6,676	332	481	8,579
Cash at bank and in hand	28,119					28,119
Insurance debtors	13,358					13,358
Other debtors	8,284					8,284
<b>Total credit risk</b>	<b><u>425,266</u></b>	<b><u>1,090</u></b>	<b><u>6,676</u></b>	<b><u>332</u></b>	<b><u>481</u></b>	<b><u>433,845</u></b>
<i>Restated 2016</i>	<i>Neither due nor impaired</i>	<i>Up to three months</i>	<i>Three to six months</i>	<i>Six months to one year</i>	<i>Greater than one year</i>	<i>Total</i>
<i>Debt securities</i>	350,972	—	—	—	—	350,972
<i>Overseas deposits</i>	77,653	—	—	—	—	77,653
<i>Reinsurers' share of claims outstanding</i>	104,838	—	—	—	—	104,838
<i>Reinsurance debtors</i>	—	1,498	2,101	968	(1,140)	3,427
<i>Cash at bank and in hand</i>	64,719	—	—	—	—	64,719
<i>Insurance debtors</i>	31,212	2,389	—	—	—	33,601
<i>Other debtors</i>	36,909	—	—	—	—	36,909
<b>Total credit risk</b>	<b><u>666,303</u></b>	<b><u>3,887</u></b>	<b><u>2,101</u></b>	<b><u>968</u></b>	<b><u>(1,140)</u></b>	<b><u>672,119</u></b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**2 MANAGEMENT OF FINANCIAL RISK (continued)**

**(d) 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 following tables analyse financial liabilities by maturity date:

<b>2017</b>	<b>No Stated maturity £000's</b>	<b>0-1 year £000's</b>	<b>1-3 years £000's</b>	<b>3-5 years £000's</b>	<b>&gt;5 years £000's</b>	<b>Total £000's</b>
Claims outstanding	—	82,172	178,186	73,867	85,234	419,459
Creditors	15,398	5,762	—	—	—	21,160
<b>Total liquidity risk</b>	<b>15,398</b>	<b>87,934</b>	<b>178,186</b>	<b>73,867</b>	<b>85,234</b>	<b>440,619</b>
<i>Restated 2016</i>	<i>No Stated maturity £000's</i>	<i>0-1 year £000's</i>	<i>1-3 years £000's</i>	<i>3-5 years £000's</i>	<i>&gt;5 years £000's</i>	<i>Total £000's</i>
<i>Claims outstanding</i>	—	196,514	199,143	80,686	95,086	571,429
<i>Creditors</i>	39,736	33,927	—	—	—	73,663
<b>Total liquidity risk</b>	<b>39,736</b>	<b>230,441</b>	<b>199,143</b>	<b>80,686</b>	<b>95,086</b>	<b>645,092</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**2 MANAGEMENT OF FINANCIAL RISK (continued)**

**(e) Fair value estimation**

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.

With the adoption of FRS 102 on fair value hierarchy disclosures, below are the methods and assumptions used by the Syndicate in estimating the fair value of its financial instruments, together with its categorisation:

*Fixed maturities and short-term investments*

Fair values of fixed maturities and short-term investments are based on the quoted market price or evaluated bid prices of these securities provided by either independent pricing services, or, when such prices are not available, by reference to broker or underwriting bid indications.

*Other invested assets*

The fair value of investments in funds is based on the net asset value provided by the funds' administrators. The fair values of holdings in equity and loan instruments are based on the market price or evaluated bid prices of these securities provided by independent pricing services, or, when such prices are not available, by reference to broker or underwriting bid indications provided by administrators and recent transactions, if any.

*Other assets and liabilities*

The fair values of cash and cash equivalents, premiums and other receivables, and accounts payable approximate their carrying value due to the immediate or short term maturity of these financial instruments.

The following tables present the Syndicate's holdings of assets measured at fair value:

<b>Estimated total losses</b>	<b>Level 1 £000's</b>	<b>Level 2 £000's</b>	<b>Level 3 £000's</b>	<b>Total £000's</b>
Debt securities and other fixed income securities	—	235,842	—	235,842
Overseas deposits	4,282	49,682	—	53,964
<b>Total</b>	<b>4,282</b>	<b>285,524</b>	<b>—</b>	<b>289,806</b>
<i>As at 31 December 2016 Restated</i>	<i>Level 1 £000's</i>	<i>Level 2 £000's</i>	<i>Level 3 £000's</i>	<i>Total £000's</i>
<i>Debt securities and other fixed income securities</i>	—	350,972	—	350,972
<i>Loans and deposits with credit institutions</i>	12,988	64,665	—	77,653
<b>Total</b>	<b>12,988</b>	<b>415,637</b>	<b>—</b>	<b>428,625</b>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**3 MANAGEMENT OF CAPITAL**

**(a) 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.

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements applies at overall and member level respectively, not at Syndicate level. Accordingly the capital requirement in respect of Syndicate 1209 is not disclosed in these financial statements. See note 20 for details of the Syndicate's FAL and FIS requirements.

**(b) Lloyd's Capital Setting Process**

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

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

**(c) Provision of capital by members**

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

Resources available to meet members' and Lloyd's capital requirements are separately identified in the Statement of Changes in Member's Balances.



**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**4 SEGMENTAL ANALYSIS**

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

<b>2017</b>	<b>Gross premiums written</b>	<b>Gross premiums earned</b>	<b>Gross claims incurred</b>	<b>Net operating expenses</b>	<b>Reinsurance balance</b>	<b>Total</b>
	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
Accident and health	(14)	(14)	—	4	26	16
Motor (other classes)						—
Marine aviation and transport	(1,521)	6,465	(14,606)	(1,706)	17,753	7,906
Fire and other damage to property	1,100	5,352	(1,210)	(1,699)	(2,172)	271
Third party liability	2,821	10,882	(3,317)	(2,780)	(4,157)	628
Other	649	5,500	(743)	(872)	(140)	3,745
Reinsurance acceptances	(591)	4,040	(2,360)	(1,012)	(2,134)	(1,466)
<b>Total</b>	<b>2,444</b>	<b>32,225</b>	<b>(22,236)</b>	<b>(8,065)</b>	<b>9,176</b>	<b>11,100</b>
	<i>Gross premiums written</i>	<i>Gross premiums earned</i>	<i>Gross claims incurred</i>	<i>Net operating expenses</i>	<i>Reinsurance balance</i>	<i>Total</i>
<b>2016</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>	<b>£000's</b>
<i>Accident and health</i>	(21)	(21)	(7,496)	5	(294)	(7,806)
<i>Motor (other classes)</i>	—	—	15	—	(876)	(861)
<i>Marine aviation and transport</i>	(1,542)	56,536	(40,978)	(13,190)	2,530	4,898
<i>Fire and other damage to property</i>	11,712	33,848	(19,936)	(10,420)	(2,741)	751
<i>Third party liability</i>	16,633	28,937	(36,665)	(7,380)	472	(14,636)
<i>Other</i>	2,574	15,084	(1,187)	(3,029)	(3,445)	7,423
<i>Reinsurance acceptances</i>	7,293	57,419	(6,490)	(12,924)	(17,231)	20,774
<b>Total</b>	<b>36,649</b>	<b>191,803</b>	<b>(112,737)</b>	<b>(46,938)</b>	<b>(21,585)</b>	<b>10,543</b>

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 2017**

**5 PROFIT FOR THE FINANCIAL YEAR**

Profit for the financial year is stated after charging:

	<b>2017</b>	<b>2016</b>
	<b>£000's</b>	<b>£000's</b>
<b>Auditor's remuneration</b>		
<b>Audit services:</b>		
Fees payable to the Syndicate's auditor for the audit of the syndicate annual accounts	95	55
<b>Other services</b>		
Fees payable to the Syndicate's auditor and its associates for other services:		
Other services pursuant to legislation, including the audit of the regulatory return	32	120
	<u>32</u>	<u>120</u>

**6 MOVEMENT IN PRIOR YEAR'S PROVISION FOR CLAIMS OUTSTANDING**

For Syndicate 1209, favourable run-off deviation (prior accident year release) of \$8.5m was experienced driven predominantly from favourable experience and IBNR reductions on Energy, Aerospace and Marine lines which were partially offset by unfavourable experience observed on Casualty and Professional lines of business.

**7 EMPLOYEES & DIRECTORS**

The Syndicate has no direct employees. Staff working on the affairs of the Syndicate are transferred into a newly formed group service company, XL Catlin Services SE ("XLCSSSE"), an approved FCA regulated intermediary, on the 31 December 2016. The recharge of the expenses from the service company to the Syndicate is through a recharge model across the international network, including UK domiciled entities and the recharge of the costs are dependent on the nature of the service performed for the Syndicate. Other than support costs which will be considered as administration expenses to the Syndicate, all other charges will be captured as acquisition costs and are subject to deferral. It is, however, not possible to ascertain separately the element of the expense recharge that relates directly to staff costs or staff numbers.

**8 NET OPERATING EXPENSES**

	<b>2017</b>	<b>2016</b>
	<b>£000's</b>	<b>£000's</b>
Acquisition costs	1,158	9,878
Members' standard personal expenses	(198)	(383)
Change in deferred acquisition costs	6,241	26,827
Administrative expenses	1,694	12,626
Reinsurers' commissions	(830)	(2,010)
	<u>8,065</u>	<u>46,938</u>

Total acquisition costs for direct insurance accounted for by the Syndicate during the year amounted to £8.4m (2016: £41.4m).

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**9 INVESTMENT RETURN**

	<b>2017</b>	<i>2016</i>
	<b>£000's</b>	<i>£000's</i>
<b>Investment income</b>		
Income from financial investments	<b>18,019</b>	<i>20,644</i>
Gains on the realisation of investments	<b>16,218</b>	<i>—</i>
	<b><u>34,237</u></b>	<i><u>20,644</u></i>
<b>Investment expenses and charges</b>		
Investment management expenses	<b>(1,313)</b>	<i>(1,479)</i>
Losses on the realisation of investments	<b>(20,805)</b>	<i>(5,880)</i>
	<b><u>(22,118)</u></b>	<i><u>(7,359)</u></i>
Unrealised gains on investments	<b>21,461</b>	<i>9,638</i>
Unrealised loss on investments	<b>(4,415)</b>	<i>(12,616)</i>
	<b><u>17,046</u></b>	<i><u>(2,978)</u></i>
Investment return	<b><u>29,165</u></b>	<i><u>10,307</u></i>
Transferred to the technical account	<b>29,165</b>	<i>10,307</i>
Retained in the non-technical account	<b>—</b>	<i>—</i>
	<b><u>29,165</u></b>	<i><u>10,307</u></i>

**10 OTHER FINANCIAL INVESTMENTS**

	<b>Market value</b>		<b>Cost</b>	
	<b>2017</b>	<i>Restated 2016</i>	<b>2017</b>	<i>Restated 2016</i>
	<b>£000's</b>	<i>£000's</i>	<b>£000's</b>	<i>£000's</i>
Debt securities and other fixed income securities	<b><u>235,842</u></b>	<i><u>350,972</u></i>	<b><u>290,912</u></b>	<i><u>380,207</u></i>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**11 INSURANCE LIABILITIES AND REINSURANCE ASSETS**

<b>2017</b>	<b>Provision for unearned premium £000's</b>	<b>Claims Outstanding £000's</b>
<b>Gross Technical Provisions</b>		
As at 1 January 2017	44,624	571,429
Movement in the provision	(29,781)	(124,304)
Foreign exchange movements	(935)	(27,666)
<b>As at 31 December 2017</b>	<u>13,908</u>	<u>419,459</u>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2017	7,202	104,838
Movement in the provision	(4,279)	(11,169)
Foreign exchange movements	36	(7,969)
<b>As at 31 December 2017</b>	<u>2,959</u>	<u>85,700</u>
<b>Net technical provisions</b>		
As at 1 January 2017	37,422	466,591
<b>As at 31 December 2017</b>	<u>10,949</u>	<u>333,759</u>

The gross claims reported, the loss adjustment liabilities and the liabilities for claims incurred but not reported are gross of expected recoveries from salvage and subrogation.

<b>2016</b>	<i>Provision for unearned premium £000's</i>	<i>Claims Outstanding £000's</i>
<b>Gross Technical Provisions</b>		
As at 1 January 2016	176,653	559,601
Movement in the provision	(155,154)	(70,559)
Foreign exchange movements	23,125	82,387
<b>As at 31 December 2016</b>	<u>44,624</u>	<u>571,429</u>
<b>Reinsurers' share of technical provisions</b>		
As at 1 January 2016	31,792	110,229
Movement in the provision	(29,101)	(21,699)
Foreign exchange movements	4,511	16,308
<b>As at 31 December 2016</b>	<u>7,202</u>	<u>104,838</u>
<b>Net technical provisions</b>		
As at 1 January 2016	144,861	449,372
<b>As at 31 December 2016</b>	<u>37,422</u>	<u>466,591</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**12 CLAIMS DEVELOPMENT TRIANGLES**

To illustrate the robustness of our reserves, the loss development tables below provide information about historical claims development by the pure underwriting year.

**Gross claims development**

	2010 & Prior	2011	2012	2013	2014	2015	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
12 months		218,662	101,377	86,478	96,572	85,452	
24 months		248,789	198,781	193,360	196,875	190,194	
36 months		243,919	200,125	189,176	200,873	208,080	
48 months		230,944	193,289	187,942	204,496		
60 months		242,429	202,448	188,055			
72 months		241,632	206,264				
84 months		237,583					
Estimated total losses	5,348,676	237,583	206,264	188,055	204,496	208,080	6,393,154
Paid claims	<u>(5,206,549)</u>	<u>(209,841)</u>	<u>(141,619)</u>	<u>(136,031)</u>	<u>(154,474)</u>	<u>(125,181)</u>	<u>(5,973,695)</u>
<b>Gross reserves</b>	<u>142,127</u>	<u>27,742</u>	<u>64,645</u>	<u>52,024</u>	<u>50,022</u>	<u>82,899</u>	<u>419,459</u>

**Net claims development**

	2010 & Prior	2011	2012	2013	2014	2015	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
12 months		192,065	93,138	74,699	76,012	67,219	
24 months		193,521	176,127	171,864	160,854	159,863	
36 months		182,838	180,149	168,134	162,636	173,736	
48 months		170,919	174,310	169,495	162,113		
60 months		178,594	184,941	168,368			
72 months		178,322	186,449				
84 months		174,707					
Estimated total losses	3,738,820	174,707	186,449	168,368	162,113	173,736	4,604,193
Paid claims	<u>(3,638,679)</u>	<u>(149,684)</u>	<u>(130,230)</u>	<u>(121,049)</u>	<u>(123,365)</u>	<u>(107,427)</u>	<u>(4,270,434)</u>
<b>Net reserves</b>	<u>100,141</u>	<u>25,023</u>	<u>56,219</u>	<u>47,319</u>	<u>38,748</u>	<u>66,309</u>	<u>333,759</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE YEAR ENDED 31 DECEMBER 2017**

**13 DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS**

	<b>2017</b>	<b>2016</b>
	<b>£000's</b>	<b>£000's</b>
Due within one year	13,358	33,601

**14 DEBTORS ARISING OUT OF REINSURANCE OPERATIONS**

	<b>2017</b>	<b>2016</b>
	<b>£000's</b>	<b>£000's</b>
Due within one year	9,215	21,773

**15 OTHER DEBTORS**

	<b>2017</b>	<b>2016</b>
	<b>£000's</b>	<b>£000's</b>
VAT receivable	8	92
Amounts due from group undertakings	2,228	2,366
Total Other debtors	2,236	2,458

**16 OVERSEAS DEPOSITS**

	<b>2017</b>	<b>2016</b>
	<b>£000's</b>	<b>£000's</b>
Illinois – USA	786	3,550
Joint Asset Trust Fund – USA	1,267	1,701
Australian Deposit	43,645	53,789
Joint Asset Trust Fund – Australia	3,258	3,872
South African Deposit	99	236
Additional Securities Limited	2,765	6,673
Kentucky – USA	756	4,955
Canadian Margin Fund	1,387	2,877
	<u>53,963</u>	<u>77,653</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 2017**

**17 DEFERRED ACQUISITION COSTS**

	<b>2017</b> <b>£000's</b>	<b>2016</b> <b>£000's</b>
On insurance contracts	<u>2,453</u>	<u>8,853</u>

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

	<b>2017</b> <b>£000's</b>	<b>2016</b> <b>£000's</b>
At 1 January	8,853	31,396
Change in deferred acquisition costs	(6,241)	(23,572)
Foreign exchange losses	(159)	1,029
At 31 December	<u>2,453</u>	<u>8,853</u>

**18 CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS**

	<b>2017</b> <b>£000's</b>	<b>2016</b> <b>£000's</b>
Due within one year	<u>3,971</u>	<u>3,509</u>

**19 CREDITORS ARISING OUT OF REINSURANCE OPERATIONS**

	<b>2017</b> <b>£000's</b>	<b>2016</b> <b>£000's</b>
Due within one year	<u>1,791</u>	<u>30,221</u>

**20. OTHER CREDITORS**

	<b>2017</b> <b>£000's</b>	<b>Restated</b> <b>2016</b> <b>£000's</b>
Amounts due to group undertakings	—	480
Inter-syndicate balances	417	197
Total Other creditors	<u>417</u>	<u>677</u>

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED 31 DECEMBER 2017**

**21 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). These funds are intended primarily to cover circumstances where Syndicate assets prove insufficient to meet participating members' underwriting liabilities.

Since FAL is not under the management of the managing agent, no amount has been shown in these financial statements by way of such capital resources. However, the managing agent is able to make a call on the member's FAL to meet liquidity requirements or to settle losses.

As at 31 December 2017, the value of FAL is £302.2m (2016: £295.5m).

**22 RELATED PARTY TRANSACTIONS**

No managing agency fees were paid by the Syndicate as from 2016. The amount due from other XL Group entities to the Syndicate as at year-end is £1.6m (2016: £3.7m).

No reinsurance was placed with XL Insurance (Bermuda) Ltd ("XLIB") in 2017 (2016: 57%).

Reinsurance recoveries from XLIB on paid claims were approximately 17% of Syndicate 1209's reinsurance recoveries on paid claims (2016: 22%) and reinsurance reserve recoveries from XLIB were approximately 3% of Syndicate 1209's reserved recoveries for both 2017 and 2016.

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 up to 2015 underwriting year.

**23 PRIOR PERIOD RESTATEMENT**

Prior Year restatements have been made for the financial investments, Cash in hand, and other creditors balances as at 31 December 2016. The restatement was made to derecognise financial investment and cash balances held within Fund's at Lloyd's as at 31 December 2016, and the corresponding liability to the member shown at that date. In addition, foreign exchange gains and losses for the year ended 31 December 2016 have been restated to recognize the accumulated foreign exchange gains and losses arising on the financial investments and cash balances released into FAL in the year.

	<b>2016</b> <b>£000's</b>	<b>2016</b> <b>£000's</b>	<b>2016</b> <b>£000's</b>
<b>Balance Sheet</b>	<b>As previously reported</b>	<b>Adjustment</b>	<b>Restated</b>
Total investments	651,537	(300,565)	350,972
Cash at bank and in hand	70,839	(6,120)	64,719
Balance due (to)/from members	12,551	(31,666)	(19,115)
Other creditors including taxation	275,696	(275,019)	677
<b>Statement of Profit and Loss</b>			
Gain on Foreign Exchange	37,239	(31,666)	5,573

**24 ULTIMATE PARENT UNDERTAKING**

CUAL, the managing agent of the Syndicate, is a company registered in England and Wales. CUAL is a wholly-owned subsidiary of XL Group Ltd, a company registered in Bermuda. Copies of the financial statements of both CUAL and XL Group Ltd are available from 20 Gracechurch Street, London, EC3V 0BG.