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ATRIUM

ANNUAL REPORT AND ACCOUNTS 2017

SYNDICATE 609

ATRIUM SYNDICATE 609 – ANNUAL ACCOUNTS

ATRIUM SYNDICATE 609 – UNDERWRITING YEAR ACCOUNTS

DIRECTORS

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

ADVISORS

Auditor
KPMG LLP

Solicitors
Clyde & Co LLP
Linklaters

Bankers
Barclays Bank Plc

Investment Managers
New England Asset Management
Conning Asset Management

Company Secretary
Martha Bruce
Bruce Wallace Associates Limited

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of the Managing Agent present their report for the year ended 31 December 2017.

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

Separate underwriting year accounts for the closed 2015 year of account can be found on pages 35 to 67.

RESULTS

The Board of Directors are pleased to announce a profit of £11.7m for Syndicate 609 for calendar year 2017 (2016 – profit of £36.2m). The results for 2017 have been impacted by the losses incurred in respect of Hurricanes Harvey, Irma and Maria as well as the Mexico earthquake and California wildfires. The back years of account have continued to develop in a favourable manner, resulting in the loss ratio for the year of 52% (2016 – 47%). Profits will be distributed by reference to the results of individual underwriting years.

PRINCIPLE ACTIVITY AND REVIEW OF THE BUSINESS

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

RISK STRATEGY

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

The Directors are responsible for setting the Risk Strategy for the syndicate and for oversight of its implementation. The syndicate's risk strategy is to actively take on underwriting risks across a balanced range of (re)insurance classes where the expected margins more than compensate for the risk to the syndicate and/ or the costs of risk mitigation e.g. reinsurance. In addition the syndicate seeks investment risk where it is adequately rewarded and the level of risk does not constrain the syndicate's underwriting.

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

BUSINESS AND PERFORMANCE EVALUATION

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

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

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

	2017 £m	2016 £m
Gross premiums written	**467.2**	412.6
Net earned premiums	**408.7**	361.0
Total Comprehensive Income	**11.7**	36.2
Loss ratio	**52%**	47%
Combined ratio	**99%**	92%
Investment return	**7.5**	8.9
Adjusted ECA	**236.0**	187.9
Return on adjusted ECA	**5%**	19%

The increase in gross premiums written is due to the impact of rates of exchange (increase of £22.8m) and an increase in premium written by our liability and reinsurance underwriters. Both of these classes have seen an increase in premiums written as new teams have joined Atrium in recent years to write international liability and property reinsurance business.

The loss ratio for the year is 52% (2016 – 47%). The impact of the catastrophe events during the second half of the year, namely Hurricanes Harvey, Irma and Maria, the Mexico earthquake and the California wildfires, contributed 16% to the loss ratio. The syndicate has continued to benefit from favorable development on the back years, contributing a saving of 14% on the loss ratio (2016 – 11%).

REPORT OF THE DIRECTORS OF THE MANAGING AGENT CONTINUED

INVESTMENT PERFORMANCE

In a challenging investment environment the syndicate continues to adopt a defensive investment strategy investing in short-dated instruments taking exposure predominantly to highly rated debt. The investment objective is to achieve an investment return from taking a limited amount of market and credit risk in investing the cashflows generated by its principal activity which is underwriting. The table below compares our actual investment performance with the 2016 calendar year. Short term interest rates rose during 2017 across all of our portfolios thus impacting performance when compared to the previous year. These interest rate rises were anticipated by our investment manager and overall performance in 2017 was better than planned due to an overweight allocation to spread products which tightened during the year.

Investment Return	2017	2016
US Dollar	**1.57%**	1.74%
Canadian Dollar	**0.27%**	0.49%
Euro	**0.44%**	0.71%
Sterling	**0.26%**	2.23%

FOREIGN EXCHANGE

The effects of exchange rate movements are recorded in two elements. Transactions during the year, translated at each quarters average rate, and the translation of closing balances into the functional currency of US Dollars gave rise to foreign exchange gains which are identified within the non-technical account. Revaluation of all functional currency balances to the presentational currency of Sterling, at the closing rate of exchange on 31 December 2017, resulted in a foreign exchange gain and is included within Other Comprehensive Income.

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

	2017		2016	
	Average	Closing	Average	Closing
US Dollar: £ Sterling	**1.29**	**1.35**	1.36	1.23
Euro: £ Sterling	**1.14**	**1.12**	1.23	1.17
Canadian Dollar: £ Sterling	**1.67**	**1.69**	1.82	1.66

PRINCIPAL RISKS AND UNCERTAINTIES

Governance

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

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

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

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

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

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

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

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

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

Executive Risk Committee (ERC)

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

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

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

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

Insurance Risk Sub-Committee (IRSC)

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

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

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

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

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

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

REPORT OF THE DIRECTORS OF THE MANAGING AGENT CONTINUED

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

Financial Risk Sub-Committee (FRSC)

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

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

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

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

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

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

Operational Risk Sub-Committee (ORSC)

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

Operational risk is the risk of loss due to inadequate or failed processes and procedures, people and systems, or external events. The agency seeks to manage these risks by operating a control based environment which consists of documented procedures, segregation of duties and appropriate levels of review.

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

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

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

BREXIT

The UK government invoked Article 50 in March 2017 which would mean that without any extensions the UK will formally leave the EU in March 2019. Without any further agreements between the UK and EU, this will have implications on Lloyd's and syndicate 609's ability to write certain EU business. Whilst this is only a small proportion of the syndicate's overall business Atrium has worked closely with Lloyd's on a contingency utilising the EU insurer Lloyd's is setting up in Belgium. In addition Atrium has worked on further contingency arrangements to continue to be able to offer insurance to EU customers. As a result Atrium is confident that syndicate 609's future performance will not be materially impacted by Brexit.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT CONTINUED

BOARD AND MANAGEMENT CHANGES

In 2017

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

In 2018

On 1 January 2018, Paul O'Shea, Atrium's Non-Executive Chairman, stepped down from the Board of Atrium Underwriters Limited and was replaced by Steve Cook, an Atrium Non-Executive Director, who was appointed Non-Executive Chairman of Atrium Underwriters Limited.

DIRECTORS & OFFICERS

The Directors & Officers of the managing agent who served during the year ended 31 December 2017 were as follows:

Martha Bruce, Bruce Wallace Associates Limited (Company Secretary)
Steve Cook
James Cox
Toby Drysdale (Active Underwriter 609)
Andrew Elliott
Gordon Hamilton
Richard Harries
James Lee
Brendan Merriman
Nick Packer (resigned effective 1 February 2017)
Stephen Riley
Paul O'Shea (resigned effective 31 December 2017)
Samit Shah
Kirsty Steward
Andrew Winyard

DIRECTORS' INTERESTS

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

RE-APPOINTMENT OF AUDITORS

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

SYNDICATE ANNUAL GENERAL MEETING

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

DISCLOSURE OF INFORMATION TO THE AUDITORS

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

By order of the Board

James Lee
Managing Director
8 March 2018

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

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

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

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the managing agent must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the syndicate and of the profit or loss of the syndicate for that period. In preparing these financial statements, the managing agent is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements assuming there are no uncertainties surrounding the syndicate's ability to continue to write business in the future as required to provide a true and fair view.

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

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

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SYNDICATE 609

OPINION

We have audited the financial statements of Syndicate 609 for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income: Technical account – General business, Statement of Comprehensive Income: Non-technical account, Balance Sheet – Assets, Balance Sheet – Liabilities, Statement of Changes in Members' Balances, Statement of Cash Flows, and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including 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.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the syndicate in accordance with, UK ethical requirements including the Financial Reporting Council ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

GOING CONCERN

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the annual accounts. We have nothing to report in these respects.

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The directors are responsible for the Report of the directors of the Managing Agent. Our opinion on the financial statements does not cover that report and we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the Report of the directors of the Managing Agent and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in that report.

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

RESPONSIBILITIES OF THE DIRECTORS OF THE MANAGING AGENT

As explained more fully in their statement set out on page 7, the directors of the Managing Agent are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to cease trading, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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

David Maddams (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL
9 March 2018

STATEMENT OF COMPREHENSIVE INCOME TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	£'000	2017 £'000	£'000	2016 £'000
Earned premiums, net of reinsurance					
Gross premiums written	5		**467,156**		412,565
Outward reinsurance premiums			**(58,499)**		(45,309)
Net premiums written			**408,657**		367,256
Change in the provision for unearned premiums:					
Gross amount		**(5,301)**		(5,470)	
Reinsurers' share		**5,336**		(791)	
Change in the net provision for unearned premiums			**35**		(6,261)
Earned premiums, net of reinsurance			**408,692**		360,995
Allocated investment return transferred from the non-technical account			**7,522**		8,946
Claims incurred, net of reinsurance					
Claims paid:					
Gross amount		**186,021**		152,804	
Reinsurers' share		**(13,743)**		(9,337)	
Net claims paid			**172,278**		143,467
Change in the provision for claims:					
Gross amount		**70,023**		39,360	
Reinsurers' share		**(30,567)**		(12,752)	
Change in the net provision for claims			**39,456**		26,608
Claims incurred, net of reinsurance			**211,734**		170,075
Net operating expenses	7		**193,801**		166,203
Balance on the technical account for general business			**10,679**		**33,663**

All operations relate to continuing activities.

NON-TECHNICAL ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 £'000	2016 £'000
Balance on the technical account for general business		**10,679**	33,663
Investment income	10	**11,246**	12,339
Net unrealised losses on investments	10	**(2,007)**	(2,105)
Investment expenses and charges	10	**(1,717)**	(1,288)
Allocated investment return transferred to general business technical account		**(7,522)**	(8,946)
Foreign exchange gains/(losses)		**640**	(3,118)
Profit for the financial year		**11,319**	30,545
Other comprehensive income			
Currency translation differences		**396**	5,703
Total comprehensive income for the year		**11,715**	**36,248**

All operations relate to continuing activities.

BALANCE SHEET: ASSETS

AT 31 DECEMBER 2017

	Notes	£'000	2017 £'000	£'000	2016 £'000
Investments	11		**518,314**		580,170
Reinsurers' share of technical provisions	15				
Provision for unearned premiums		**13,875**		9,321	
Claims outstanding	6	**117,994**		96,149	
			131,869		105,470
Debtors					
Debtors arising out of direct insurance operations	12	**114,012**		119,681	
Debtors arising out of reinsurance operations		**17,579**		18,301	
Other debtors		**532**		239	
			132,123		138,221
Other assets					
Cash at bank and in hand		**33,613**		25,325	
Overseas deposits		**77,215**		72,825	
			110,828		98,150
Prepayments and accrued income					
Accrued interest		**851**		1,227	
Deferred acquisition costs	13	**60,955**		61,083	
			61,806		62,310
Total assets			**954,940**		984,321

BALANCE SHEET: LIABILITIES

AT 31 DECEMBER 2017

	Notes	£'000	2017 £'000	£'000	2016 £'000
Capital and reserves					
Members' balances			**(23,109)**		38,052
Technical provisions	15				
Provision for unearned premiums		**188,086**		196,561	
Claims outstanding	6	**701,094**		679,387	
			889,180		875,948
Creditors					
Creditors arising out of direct insurance operations	16	**17,382**		15,344	
Creditors arising out of reinsurance operations		**27,530**		22,844	
Other creditors		**38,237**		27,449	
			83,149		65,637
Accruals and deferred income			**5,720**		4,684
Total liabilities			**954,940**		**984,321**

The Annual Report and Accounts were approved at a meeting of the Board of Directors of Atrium Underwriters Limited, on 8 March 2018 and were signed on its behalf by:

James Lee
Agency Managing Director
8 March 2018

Richard Harries
Chief Executive Officer
8 March 2018

STATEMENT OF CHANGES IN MEMBERS' BALANCES

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £'000	2016 £'000
Members' balances brought forward at 1 January	**38,052**	69,037
Profit for the financial year	**11,319**	30,545
Payments of profit to members' personal reserve funds	**(72,876)**	(67,233)
Other comprehensive income for the year	**396**	5,703
Members' balances carried forward at 31 December	**(23,109)**	**38,052**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Profit for the financial year	**11,319**	30,545
Net realised and unrealised investment gains	**2,890**	1,868
Foreign exchange on balance due to members	**163**	(357)
Currency translation differences	**(11,779)**	(9,705)
Increase in net technical provisions	**38,046**	39,534
Increase in debtors	**(5,189)**	1,161
Increase in creditors	**22,098**	(23,630)
Net sale of shares and other variable yield securities and units in unit trusts	**5,853**	(7,111)
Net sale of debt securities and other fixed income securities	**26,847**	42,273
Net sale of loans secured by mortgage	**58**	148
Purchase of deposits with credit institutions	**–**	(2)
Decrease in deposits with ceding undertakings	**–**	–
Increase in overseas deposits	**(8,190)**	(9,794)
Decrease in deposits received from reinsurers	**–**	–
Net cash inflow from operating activities	**82,116**	64,930
Cash flows from financing activities		
Members' agents' fees	**(1,955)**	(2,761)
Transfer to members in respect of underwriting participations	**(71,655)**	(64,077)
Other	**50**	(40)
Net cash outflow from financing activities	**(73,560)**	(66,878)
Net increase in cash and cash equivalents	**8,556**	(1,948)
Cash and cash equivalents at beginning of financial year	**25,325**	25,874
Effect of foreign exchange rates on cash and cash equivalents	**(268)**	1,399
Cash and cash equivalents at end of financial year	**33,613**	**25,325**
Reconciliation to cash at bank and in hand		
Cash at bank and in hand at end of financial year	**33,613**	25,325
Cash equivalents	**–**	–
Cash and cash equivalents at end of financial year	**33,613**	**25,325**

NOTES TO THE FINANCIAL STATEMENTS

AT 31 DECEMBER 2017

1. BASIS OF PREPARATION

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

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

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

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

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

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

2. USE OF JUDGMENTS AND ESTIMATES

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

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

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

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

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged. Further information about the risk that the provision for claims outstanding could be materially different from the ultimate cost of claims settlement is included in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the syndicate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Insurance classification

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

Gross Premiums Written

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

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

Unearned Premiums

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

Reinsurance Premium Ceded

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

Claims Provisions and Related Recoveries

Gross claims incurred comprise the estimated cost of all claims occurring during the year, whether reported or not, including related direct and indirect claims handling costs and adjustments to claims outstanding from previous years.

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

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified and, where material, reported as an asset.

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

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

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

Deferred Acquisition Costs

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Unexpired Risks Provision

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

Investment Return

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

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

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

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

Foreign Currencies

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

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

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

Financial instruments

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

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

Such assets are subsequently carried at fair value.

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the syndicate estimates the fair value by using a valuation technique. See note 11 for further information on the syndicate's valuation techniques.

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

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

Cash and cash equivalents

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

Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

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

Pension Costs

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

Profit Commission

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

4. RISK AND CAPITAL MANAGEMENT

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

Risk Management Framework

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

4. RISK AND CAPITAL MANAGEMENT CONTINUED

Insurance risk management

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

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

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

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

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

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

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

	Gross Claims Outstanding		Reinsurer's Share of Claims Outstanding		Net Claims Outstanding	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
UK	**27,017**	43,481	**4,547**	6,154	**22,470**	37,327
Other EU Countries	**45,726**	41,443	**7,696**	5,865	**38,030**	35,578
US	**448,143**	375,700	**75,422**	53,170	**372,721**	322,530
Asia	**10,386**	31,252	**1,748**	4,423	**8,638**	26,829
Canada	**36,197**	45,519	**6,092**	6,442	**30,105**	39,077
Australia	**32,578**	24,458	**5,483**	3,461	**27,015**	20,997
Other	**101,047**	117,534	**17,006**	16,634	**84,041**	100,900
	701,094	679,387	**117,994**	96,149	**583,100**	583,238

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2017

4. RISK AND CAPITAL MANAGEMENT CONTINUED

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

	Gross Claims Outstanding		Reinsurer's Share of Claims Outstanding		Net Claims Outstanding	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Accident and health	**22,667**	24,532	**2,294**	3,871	**20,373**	20,661
Motor (third party liability)	**201**	205	**–**	–	**201**	205
Motor (other classes)	**6,571**	7,850	**120**	5	**6,451**	7,845
Marine, aviation and transport	**117,359**	147,505	**38,484**	43,579	**78,875**	103,926
Fire and other damage to property	**129,209**	115,487	**14,828**	6,853	**114,381**	108,634
Third party liability	**294,279**	289,925	**35,654**	32,280	**258,625**	257,645
Credit and suretyship	**5,069**	4,235	**277**	157	**4,792**	4,078
Legal expenses	**2,352**	3,427	**1**	1	**2,351**	3,426
	577,707	593,166	**91,658**	86,746	**486,049**	506,420
Reinsurance	**123,387**	86,221	**26,336**	9,403	**97,051**	76,818
Total	**701,094**	679,387	**117,994**	96,149	**583,100**	583,238

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

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

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

	Total Comprehensive Income Impact	
	2017 £'000	2016 £'000
5% increase in net loss ratios	**(10,587)**	(8,504)
5% decrease in net loss ratios	**10,587**	8,504

Financial risk management

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

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

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

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

4. RISK AND CAPITAL MANAGEMENT CONTINUED

Foreign currency risk management

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

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

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

As at 31 December 2017	Sterling £'000	Euro £'000	US Dollar £'000	Can Dollar £'000	Other £'000	Total £'000
Investments	**26,342**	**37,267**	**412,924**	**41,781**	**–**	**518,314**
Reinsurers' share of technical provisions	**10,543**	**3,634**	**115,910**	**1,782**	**–**	**131,869**
Debtors	**20,245**	**7,256**	**98,385**	**6,211**	**26**	**132,123**
Other assets	**31,871**	**6,718**	**63,124**	**8,830**	**285**	**110,828**
Prepayments and accrued income	**14,750**	**3,432**	**38,404**	**5,220**	**–**	**61,806**
Total assets	**103,751**	**58,307**	**728,747**	**63,824**	**311**	**954,940**
Technical provisions	**100,694**	**52,342**	**686,215**	**49,929**	**–**	**889,180**
Creditors	**16,594**	**4,815**	**61,727**	**0**	**13**	**83,149**
Accruals and deferred income	**975**	**13**	**3,197**	**1,535**	**–**	**5,720**
Total liabilities	**118,263**	**57,170**	**751,139**	**51,464**	**13**	**978,049**
Net assets/(liabilities)	**(14,512)**	**1,137**	**(22,392)**	**12,360**	**298**	**(23,109)**

As at 31 December 2016	Sterling £'000	Euro £'000	US Dollar £'000	Can Dollar £'000	Other £'000	Total £'000
Investments	28,484	59,059	446,605	46,022	–	580,170
Reinsurers' share of technical provisions	4,719	2,891	96,948	912	–	105,470
Debtors	16,977	9,446	106,050	5,748	–	138,221
Other assets	36,653	9,431	44,299	7,212	555	98,150
Prepayments and accrued income	12,701	3,022	41,524	5,063	–	62,310
Total assets	**99,534**	**83,849**	**735,426**	**64,957**	**555**	**984,321**
Technical provisions	86,672	49,785	696,545	42,946	–	875,948
Creditors	19,681	4,237	39,844	850	1,025	65,637
Accruals and deferred income	910	26	2,166	1,582	–	4,684
Total liabilities	**107,263**	**54,048**	**738,555**	**45,378**	**1,025**	**946,269**
Net assets/(liabilities)	**(7,729)**	**29,801**	**(3,129)**	**19,579**	**(470)**	**38,052**

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

	Total Comprehensive Income Impact 2017 £'000	2016 £'000
10% increase in GBP/US Dollar exchange rate	**2,146**	3,227
10% decrease in GBP/US Dollar exchange rate	**(2,146)**	(3,227)
10% increase in GBP/Euro exchange rate	**(1,528)**	(4,532)
10% decrease in GBP/Euro exchange rate	**1,528**	4,532

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

4. RISK AND CAPITAL MANAGEMENT CONTINUED

Interest rate risk management

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

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

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

	Total Comprehensive Income Impact 2017 £'000	2016 £'000
50 basis point increase	**(4,755)**	(5,265)
50 basis point decrease	**4,816**	5,340

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

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

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

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

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

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

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

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

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

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

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

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

4. RISK AND CAPITAL MANAGEMENT CONTINUED

As at 31 December 2017	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
Investments	**90,854**	**100,979**	**242,348**	**54,912**	**29,221**	**–**	**518,314**
Reinsurers' share of technical provisions	**–**	**27,238**	**80,949**	**20**	**8,952**	**14,710**	**131,869**
Debtors	**–**	**798**	**131,140**	**–**	**–**	**185**	**132,123**
Other assets	**43,415**	**10,302**	**44,784**	**6,366**	**1,060**	**4,901**	**110,828**
Accrued interest	**–**	**–**	**851**	**–**	**–**	**–**	**851**
Total	**134,269**	**139,317**	**500,072**	**61,298**	**39,233**	**19,796**	**893,985**

(1) not rated other assets represent cash awaiting investment within our Lloyds overseas deposits.

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

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

As at 31 December 2017	Neither past due nor impaired £'000	Past due less than 30 days £'000	Past due 31 to 60 days £'000	Past due 61 to 90 days £'000	Past due more than 90 days £'000	Past due and impaired £'000	Carrying amount £'000
Debtors arising out of direct insurance operations	**114,012**	**–**	**–**	**–**	**–**	**–**	**114,012**
Debtors arising out of direct reinsurance operations	**15,289**	**1,513**	**283**	**227**	**267**	**–**	**17,579**
Total	**129,301**	**1,513**	**283**	**227**	**267**	**–**	**131,591**

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

Liquidity risk management

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2017

4. RISK AND CAPITAL MANAGEMENT CONTINUED

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

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

As at 31 December 2017	Less than 1 year £'000	1 – 3 years £'000	3 – 5 years £'000	More than 5 years £'000	Total £'000
Investments	**215,841**	**199,788**	**94,181**	**8,504**	**518,314**
Reinsurers' share of technical provisions	**13,735**	**75,555**	**30,558**	**12,021**	**131,869**
Debtors	**129,584**	**2,539**	**–**	**–**	**132,123**
Other assets	**73,086**	**35,397**	**2,345**	**–**	**110,828**
Accrued interest	**851**	**–**	**–**	**–**	**851**
Total	**433,097**	**313,279**	**127,084**	**20,525**	**893,985**
Technical provisions	**272,529**	**394,532**	**132,577**	**89,542**	**889,180**
Creditors	**81,345**	**1,804**	**–**	**–**	**83,149**
Accruals and deferred income	**1,391**	**1,315**	**3,014**	**–**	**5,720**
Total	**355,265**	**397,651**	**135,591**	**89,542**	**978,049**

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

Capital Management

Capital framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 609 is not disclosed in these financial statements.

4. RISK AND CAPITAL MANAGEMENT CONTINUED

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member's SCR is determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to arrive at the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

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

5. ANALYSIS OF UNDERWRITING RESULT

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

2017	Gross premiums written £'000	Gross premiums earned £'000	Gross claims incurred £'000	Gross operating expenses £'000	Reinsurance balance £'000	Total £'000	Net technical provisions £'000
Direct insurance:							
Accident and health	45,919	44,696	16,611	22,771	(1,624)	**3,690**	36,183
Motor (third party liability)	663	482	109	178	(10)	**185**	529
Motor (other classes)	14,052	12,473	9,237	4,668	(75)	**(1,507)**	12,435
Marine, aviation and transport	67,299	72,173	13,288	38,097	(10,040)	**10,748**	103,875
Fire and other damage to property	145,262	141,613	78,169	62,693	(2,807)	**(2,056)**	177,895
Third party liability	122,155	118,112	69,902	51,146	1,784	**(1,152)**	313,647
Credit and suretyship	4,921	5,493	5,733	2,384	1,830	**(794)**	6,558
Legal Expenses	858	937	(294)	1,050	(13)	**168**	2,621
	401,129	395,979	192,755	182,987	(10,955)	**9,282**	653,743
Reinsurance	66,027	65,876	63,289	16,104	7,392	**(6,125)**	103,568
Total	**467,156**	**461,855**	**256,044**	**199,091**	**(3,563)**	**3,157**	**757,311**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2017

5. ANALYSIS OF UNDERWRITING RESULT CONTINUED

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

Commission on direct insurance gross premiums earned during 2017 was £127,796,000 (2016 – £113,595,000).

No gains or losses were recognised in profit or loss during the year on buying reinsurance (2016: nil).

All premiums were concluded in the UK.

The geographical analysis of premiums by destination is as follows:

	2017 %	2016 %
UK	**7.3**	6.4
Other EU countries	**7.0**	6.1
US	**53.1**	55.3
Asia	**3.1**	4.6
Canada	**8.1**	6.7
Australia	**3.2**	3.6
Other	**18.2**	17.3
Total	**100.0**	100.0

6. CLAIMS OUTSTANDING

Reassessment of claims outstanding on underwriting years 2014 & prior (2016 – 2013 & prior) resulted in an improvement of £55.9m (2016 – £40.5m).

7. NET OPERATING EXPENSES

	2017 £'000	2016 £'000
Acquisition costs:		
Brokerage & Commission	**134,432**	120,333
Other acquisition costs	**19,671**	17,653
Change in deferred acquisition costs	**(4,537)**	(2,277)
Administrative expenses	**49,525**	36,845
	199,091	172,554
Reinsurance commissions receivable	**(5,290)**	(6,351)
	193,801	166,203

Administrative expenses include:

	2017 £'000	2016 £'000
Auditors' remuneration:	**234**	234

Members' standard personal expenses (Lloyd's subscriptions, New Central Fund Contributions, managing agent's fees and profit commission) are included within administrative expenses and amount to £22,084,000 (2016 – £16,198,000).

8. STAFF NUMBERS AND COSTS

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

	2017 £'000	2016 £'000
Wages and salaries	**14,050**	12,463
Variable compensation	**9,452**	6,055
Social security costs	**2,650**	1,060
Other pension costs	**2,142**	1,980
	28,294	21,558

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

	2017 Number	2016 Number
Management	**6**	6
Underwriting	**71**	69
Claims	**10**	9
Administration	**53**	50
	140	134

9. REMUNERATION OF THE DIRECTORS OF ATRIUM UNDERWRITERS LIMITED

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

	2017 £'000	2016 £'000
Directors' emoluments	**1,511**	1,520
Pensions	**62**	105
	1,573	1,625

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

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

	2017 £'000	2016 £'000
Emoluments	**237**	230

10. INVESTMENT RETURN

	2017 £'000	2016 £'000
Investment income:		
Income from investments	**10,920**	11,355
Gains on the realisation of investments	**326**	984
	11,246	12,339
Net unrealised losses on investments:		
Unrealised gains on investments	**729**	1,891
Unrealised losses on investments	**(2,736)**	(3,996)
	(2,007)	(2,105)
Investment expenses and charges:		
Investment management expenses, including interest	**(507)**	(540)
Losses on the realisation of investments	**(1,210)**	(748)
	(1,717)	(1,288)
Allocated investment return transferred to general business technical account	**7,522**	8,946

10. INVESTMENT RETURN CONTINUED

Calendar Year Investment Return

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

	2017 £'000	2016 £'000
Average syndicate funds available for investment during the year		
Sterling	**26,801**	29,560
US dollars	**369,324**	365,086
Canadian dollars	**44,712**	36,669
Euro	**38,867**	60,597
Combined	**479,704**	491,911
Aggregate gross investment return for the year	**6,680**	8,509
Gross calendar year investment return:	**%**	%
Sterling	**0.4**	2.5
US dollars	**1.6**	2.0
Canadian dollars	**0.4**	0.8
Euro	**0.4**	1.0
Combined	**1.4**	1.8

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

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

11. FINANCIAL INVESTMENTS

	Fair value 2017 £'000	2016 £'000	Cost 2017 £'000	2016 £'000
Shares and other variable yield securities and units in unit trusts	**30,791**	39,765	**30,791**	39,765
Debt securities and other fixed income securities	**487,396**	540,201	**491,112**	546,384
Loans secured by mortgage	**92**	166	**95**	169
Deposits with credit institutions	**35**	38	**35**	38
	518,314	580,170	**522,033**	586,356

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

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

	2017 £'000	2017 %	2016 £'000	2016 %
Government/Government Agency	**132,002**	**27.1**	148,770	27.5
AAA/Aaa	**13,909**	**2.9**	61,989	11.5
AA/Aa	**61,010**	**12.5**	52,545	9.7
A	**196,343**	**40.2**	187,966	34.9
BBB	**54,912**	**11.3**	83,288	15.4
<BBB	**29,221**	**6.0**	5,643	1.0
	487,397	**100.0**	540,201	100.0

11. FINANCIAL INVESTMENTS CONTINUED

The syndicate's core fixed income manager throughout 2017 was New England Asset Management (NEAM). The US dollar and Canadian dollar investments are managed by NEAM Inc, based in Farmington, US and the Euro portfolio are managed by NEAM Ltd, a sister company based in Dublin, Ireland. In October 2017 Conning Asset Management Ltd were instructed to manage a new non-core portfolio of US dollar bank loans.

Fair Value methodology

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

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

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

Fair value hierarchy:

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

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

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

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

As at 31 December 2017	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Shares and other variable yield securities and units in unit trusts	**–**	**30,791**	–	**30,791**
Debt securities and other fixed income securities	**18,314**	**469,082**	–	**487,396**
Loans secured by mortgage	**–**	**92**	–	**92**
	18,314	**499,965**	**–**	**518,279**

As at 31 December 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Shares and other variable yield securities and units in unit trusts	–	39,764	–	**39,764**
Debt securities and other fixed income securities	37,178	503,023	–	**540,201**
Loans secured by mortgage	–	166	–	**166**
	37,178	542,953	–	**580,132**

12. DEBTORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2017 £'000	2016 £'000
Due from Intermediaries		
Due within one year	**113,809**	119,242
Due after one year	**203**	439
	114,012	119,681

13. DEFERRED ACQUISITION COSTS

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

	2017 £'000	2016 £'000
Balance at 1 January	**61,083**	52,627
Incurred costs deferred	**96,900**	109,845
Amortisation	**(93,306)**	(109,719)
Effect of movements in exchange rates	**(3,722)**	8,330
Balance at 31 December	**60,955**	61,083

14. CLAIMS DEVELOPMENT

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

The cumulative claims estimates and payments for each underwriting year are translated into pounds sterling at the exchange rates prevailing at 31 December 2017 in all cases.

Analysis of claims development – gross	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
Estimate of ultimate gross claims:								
at end of underwriting year	280,489	248,232	250,348	247,465	266,461	275,592	358,742	
one year later	253,448	207,755	244,677	219,638	254,810	253,764		
two years later	244,522	191,147	220,659	204,020	229,704			
three years later	242,813	171,406	208,921	180,450				
four years later	234,106	161,527	195,884					
five years later	228,071	154,847						
six years later	226,022							
Less gross claims paid	188,277	130,353	160,263	121,069	121,547	77,305	16,942	
Gross ultimate claims reserve	37,745	24,494	35,621	59,381	108,157	176,459	341,800	**783,657**
Gross ultimate claims reserve for 2010 & prior years								**92,253**
Gross unearned portion of ultimate claims								**(174,816)**
Gross claims reserve								**701,094**

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

AT 31 DECEMBER 2017

14. CLAIMS DEVELOPMENT CONTINUED

Analysis of claims development – net	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	Total £'000
Estimate of ultimate net claims:								
at end of underwriting year	241,541	221,303	224,573	221,272	236,155	238,582	296,527	
one year later	226,978	193,058	229,115	205,145	233,861	227,348		
two years later	210,621	179,441	203,378	194,302	212,525			
three years later	194,946	160,663	192,682	172,940				
four years later	186,382	151,970	180,989					
five years later	181,501	145,679						
six years later	179,798							
Less net claims paid	160,683	122,605	147,449	117,206	116,766	71,403	16,744	**752,856**
Net ultimate claims reserve	19,115	23,074	33,540	55,734	95,759	155,945	279,783	**662,950**
Net ultimate claims reserve for 2010 & prior years								**71,944**
Net unearned portion of ultimate claims								**(151,794)**
Net claims reserve								**583,100**

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

The syndicate has taken advantage of the transitional provisions within FRS 103 not to disclose information about claims development that occurred earlier than five years before the end of the first financial year in which FRS 103 is applied. FRS 103 was first applied for the 2015 financial year.

15. TECHNICAL PROVISIONS

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

Claims outstanding	2017 Gross provisions £'000	2017 Reinsurance assets £'000	2017 Net £'000	2016 Gross provisions £'000	2016 Reinsurance assets £'000	2016 Net £'000
Balance at 1 January	**679,387**	**96,149**	**583,238**	540,543	69,606	470,937
Claims and claims adjustment expenses for the year	**256,044**	**44,310**	**211,734**	192,165	22,089	170,076
Cash paid for claims settled in the year	**(186,021)**	**(13,743)**	**(172,278)**	(152,804)	(9,337)	(143,467)
Effect of movements in exchange rates	**(48,316)**	**(8,722)**	**(39,594)**	99,483	13,791	85,692
Balance at 31 December	**701,094**	**117,994**	**583,100**	679,387	96,149	583,238
Claims reported and claims adjustment expenses	**234,214**	**21,655**	**212,559**	221,222	20,500	200,722
Claims incurred but not reported	**466,880**	**96,339**	**370,541**	458,165	75,649	382,516
Balance at 31 December	**701,094**	**117,994**	**583,100**	679,387	96,149	583,238

Unearned Premiums	2017 Gross provisions £'000	2017 Reinsurance assets £'000	2017 Net £'000	2016 Gross provisions £'000	2016 Reinsurance assets £'000	2016 Net £'000
Balance at 1 January	**196,561**	**9,321**	**187,240**	161,702	8,820	152,882
Premiums written during the year	**467,156**	**58,499**	**408,657**	412,565	45,309	367,256
Premiums earned during the year	**(461,855)**	**(53,163)**	**(408,692)**	(407,097)	(46,100)	(360,997)
Effect of movements in exchange rates	**(13,776)**	**(782)**	**(12,994)**	29,391	1,292	28,099
Balance at 31 December	**188,086**	**13,875**	**174,211**	196,561	9,321	187,240

16. CREDITORS ARISING OUT OF DIRECT INSURANCE OPERATIONS

	2017 £'000	2016 £'000
Due from Intermediaries:		
Due within one year	**17,319**	15,141
Due after one year	**63**	203
	17,382	15,344

17. DISCLOSURES OF INTEREST

Atrium Underwriting Group Limited (AUGL) is a wholly owned subsidiary of Alopuc Ltd (a UK holding company) and Alopuc Ltd is in turn a wholly owned subsidiary of Northshore Holdings Ltd, a Bermudan company. The ultimate beneficial owners of Northshore are Enstar Group Ltd (Enstar) who hold approximately 56.3% economic interest and affiliates of Stone Point Capital LLC (Stone Point) who hold approximately 37.5% economic interest. The balance of shareholding is held by Dowling Capital Partners and Atrium management and staff.

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

Historically AUGL has participated on the managed syndicate through its corporate member subsidiary, Atrium 5 Limited. With effect from the 2017 year of account onwards, this AUGL participation has been through another corporate member within the Enstar Group (SGL No. 1 Limited) under the terms of a lease agreement between SGL No. 1 Limited and Atrium 5 Limited.

	2015 Capacity £m	2016 Capacity £m	2017 Capacity £m	2018 Capacity £m
Syndicate 609	107.1	107.1	107.1	**114.7**

Atrium 5 Limited/ SGL No.1 Limited's participations on the managed syndicate as % of syndicate capacity:

	Year of account			
	2015 %	2016 %	2017 %	2018 %
Syndicate 609	25.5	25.6	25.5	**25.4**

AIAL is a registered Lloyd's UK coverholder and is authorised and regulated by the Financial Conduct Authority. Syndicate 609 leads a binding authority granted to AIAL to underwrite Space business. Under the terms of the binding authority, fees and profit commission are payable by the syndicate to AIAL. Fee income of US$398,000 (2016 – US$380,398) is payable by the syndicate to AIAL in relation to premium earned in calendar year 2017. Profit commission of $195,000 (2016 – US$nil) has been incurred by the syndicate during the calendar year 2017.

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

ASIA carries on for its own account the business of insurance intermediation in Singapore, operating on the Lloyd's Asia platform. In this capacity it has been granted authority by Syndicate 609 to bind certain risks (including marine hull, energy, aviation and non-marine property risks) and has been approved by Lloyd's and the Monetary Authority of Singapore to act as a Lloyd's Singapore Service Company. Under the terms of the arrangement with Syndicate 609, ASIA charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of S$1,785,000 were paid by Syndicate 609 to ASIA in calendar year 2017 (2016 – S$4,973,000). ASIA ceased to write business in 2016 and is now in run-off.

17. DISCLOSURES OF INTEREST CONTINUED

ARMS is incorporated in Washington State, United States, and was established to support the syndicate strategy to maintain and grow it's North American direct portfolio and distribution network. ARMS charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of US$1,751,000 were paid by Syndicate 609 in the calendar year 2017 (2016 – US$1,575,000).

ARMSBC is incorporated in British Columbia, Canada, and was established to support the Syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMSBC charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of C$687,000 were paid by Syndicate 609 to ARMSBC in the calendar year 2017 (2016 – C$681,000).

The Directors' participations on Syndicate 609 via Nomina No. 207 LLP (the staff LLP) are as follows (this includes any Director of AUL that served during 2017 and is a partner in the LLP):

	2015 £	2016 £	2017 £	**2018 £**
Steve Cook	46,359	–	–	–
James Cox	103,610	81,979	74,170	**127,287**
Toby Drysdale	37,723	23,590	19,700	**41,952**
Richard Harries	446,185	317,688	277,611	**519,189**
James Lee	45,527	42,197	56,659	**86,960**
Brendan Merriman	34,145	31,648	32,004	**62,855**
Samit Shah	67,984	50,717	72,526	**112,595**
Kirsty Steward	34,145	21,114	21,461	**27,134**

AUL has made no loans to directors of the company during 2017 (2016 – nil). There were no loans outstanding at the balance sheet date.

Managing agency fees of £2,929,000 (2016 – £2,929,000) were paid by the syndicate to AUL. Profit commission of £15,792,000 (2016 – £9,854,000) is payable by the syndicate to AUL in relation to the 2017 calendar year result. The managing agents agreement was amended in 2007 to enable managing agents to make payments on account of profit commission, prior to the closure of a year of account. Payments on account can be made when the syndicate transfers open year surpluses from the syndicate level premium trust funds to the members' personal reserve fund. No such payment was made in 2017 (2016 – £nil). Included within creditors is £14,190,000 (2016 – £18,031,000) in respect of profit commission payable to AUL on the 2015 year of account. £894,000 (2016 – £nil) is included in accruals and payable after 12 months.

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

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

ATRIUM

UNDERWRITING YEAR ACCOUNTS
THE 2015 YEAR OF ACCOUNT

SYNDICATE 609

REPORT OF THE DIRECTORS OF THE MANAGING AGENT

The Directors of the Managing Agent presents their report at 31 December 2017 for the 2015 closed year of account.

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

REVIEW OF THE 2015 CLOSED YEAR OF ACCOUNT

The 2015 year of account closed with a profit of £56.8m after standard personal expenses (13.5% of capacity). There was an underwriting surplus of £39.3m attributable to business reinsured into the 2015 year of account, net of profit commission and other associated expenses. Further details on the underwriting results are included within the Underwriter's Report.

PRINCIPLE RISKS AND UNCERTAINTIES

Governance

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

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

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

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

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

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

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

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

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

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

Executive Risk Committee (ERC)

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

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

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

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

Insurance Risk Sub-Committee (IRSC)

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

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

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

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

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

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

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

Financial Risk Sub-Committee (FRSC)

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

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

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

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

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

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

Operational Risk Sub-Committee (ORSC)

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

Operational risk is the risk of loss due to inadequate or failed processes and procedures, people and systems, or external events. The agency seeks to manage these risks by operating a control based environment which consists of documented procedures, segregation of duties and appropriate levels of review.

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

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

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

BREXIT

The UK government invoked Article 50 in March 2017 which would mean that without any extensions the UK will formally leave the EU in March 2019. Without any further agreements between the UK and EU, this will have implications on Lloyd's and syndicate 609's ability to write certain EU business. Whilst this is only a small proportion of the syndicate's overall business Atrium has worked closely with Lloyd's on a contingency utilising the EU insurer Lloyd's is setting up in Belgium. In addition Atrium has worked on further contingency arrangements to continue to be able to offer insurance to EU customers. As a result Atrium is confident that syndicate 609's future performance will not be materially impacted by Brexit.

BOARD AND MANAGEMENT CHANGES

In 2017

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

In 2018

On 1 January 2018, Paul O'Shea, Atrium's Non-Executive Chairman, stepped down from the Board of Atrium Underwriters Limited and was replaced by Steve Cook, an Atrium Non-Executive Director, who was appointed Non-Executive Chairman of Atrium Underwriters Limited.

DIRECTORS & OFFICERS

The Directors and Officers of the managing agent who served during the year ended 31 December 2017 were as follows:

Martha Bruce, Bruce Wallace Associates Limited (Company Secretary)
Steve Cook
James Cox
Toby Drysdale (Active Underwriter 609)
Andrew Elliott
Gordon Hamilton
Richard Harries
James Lee
Brendan Merriman
Nick Packer (resigned effective 1 February 2017)
Stephen Riley
Samit Shah
Paul O'Shea (resigned effective 31 December 2017)
Kirsty Steward
Andrew Winyard

DIRECTORS' INTERESTS

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

RE-APPOINTMENT OF AUDITORS

The Board of Directors have re-appointed KPMG LLP as the syndicate auditors for the year ending 31 December 2018. KPMG LLP have indicated their willingness to continue in office as the syndicate auditor.

By order of the Board

James Lee
Agency Managing Director
14 March 2018

STATEMENT OF MANAGING AGENT'S RESPONSIBILITIES

The directors of the managing agent are responsible for preparing the Syndicate underwriting year accounts in accordance with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and the Lloyd's Syndicate Accounting Byelaw. They have elected to prepare the accounts in accordance with FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 the directors of the managing agent must not approve the underwriting year accounts unless they are satisfied that they give a true and fair view of the result of the underwriting year at closure. In preparing these accounts, the directors of the managing agent are required to:

- Select suitable accounting policies and then apply them consistently and where there are items which affect more than one year of account, ensure a treatment which is equitable between the members of the syndicate affected is used;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the accounts;
- Assess the syndicate's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to cease trading, or have no realistic alternative but to do so. As explained in note 1 the directors of the managing agent have not prepared the underwriting year accounts on a going concern basis.

The directors of the managing agent are responsible for keeping adequate and proper accounting records that are sufficient to show and explain the Syndicate's transactions and disclose with reasonable accuracy at any time the financial position of the Syndicate and enable them to ensure that the underwriting year accounts comply with the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. They are responsible for such internal control as they determine is necessary to enable the preparation of accounts that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SYNDICATE 609 2015 CLOSED YEAR OF ACCOUNT

We have audited the Syndicate underwriting year accounts for the 2015 year of account of Syndicate 609 for the three year period ended 31 December 2017, which comprise the Statement of Comprehensive Income: Technical account – General business, Statement of Comprehensive Income: Non-technical account, Balance Sheet, Statement of Cash Flows and related notes, including the accounting policies in note 3. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as modified by the Insurance Directive (Lloyd's Syndicate and Aggregate Accounts Regulations 2008) and the Lloyd's Syndicate Accounting Byelaw.

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

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS OF THE MANAGING AGENT AND AUDITOR

As explained more fully in the Statement of Managing Agent's Responsibilities set out on page 40, the directors of the Managing Agent are responsible for the preparation of the underwriting year accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express and opinion on, the underwriting year accounts in accordance with the applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE UNDERWRITING YEAR OF ACCOUNTS

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

OPINION ON UNDERWRITING YEAR ACCOUNTS

In our opinion the underwriting year accounts:

- give a true and fair view of the syndicate's profit for the 2015 closed year; and
- have been properly prepared in accordance with the requirements of the Lloyd's Syndicate Accounting Byelaw.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

- adequate and proper accounting records have not been kept by the directors of the managing agent on behalf of the syndicate; or
- the underwriting year accounts are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

David Maddams (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL
14 March 2018

UNDERWRITER'S REPORT

SYNDICATE 609

2015 YEAR OF ACCOUNT

I am delighted to report a profit of £56.8m after all personal expenses but before members' agents' fees. This represents a 13.5% return on stamp capacity. Favourable run-off of the back years contributed 93% to the result (49% last year).

The back year contribution is substantial. The back year releases are a mixture of individual claim improvements and class development pattern reviews. For example last year I reported that we had to belatedly increase our held reserves for a fire at a power plant in Guam. During the calendar year this settled within the original loss estimate and so we have been able to release a large amount of IBNR.

On the pure year there were a number of large risk claims such as Prince Fielder (impacts Accident & Health), the Kwame Nkrumah FPSO (Upstream Energy and Marine XL – 2016), Metrojet (Aviation), Troll Solution & Alpine Eternity (Marine & Energy Liability), as well as one potentially large claim from The Swim and Survival Academy (International General Liability). The largest natural catastrophes to impact the 2015 account were the Fort McMurray wildfire loss and an earthquake in Taiwan.

Classes that significantly contributed to the 2015 profit include our reinsurance portfolio, terrorism and upstream energy.

The gross written income (net of acquisition costs) was £277m which is 66% of capacity.

2016 YEAR OF ACCOUNT

To date the 2016 year of account looks as if it should produce a reasonable profit. Notable 2016 large risk losses include Carrie Fisher (impacts Accident & Health), Space X (Marine XL) LAMIA, CHC and Eczacibasi Havacilik (all Aviation). Regarding Natural Catastrophes we have been able to steadily reduce our estimated loss from Hurricane Matthew, and it now stands at $4.8m. We have one large risk loss from the earthquake in New Zealand in November 2016 and one from the Fort McMurray fire (both Non Marine D&F). Very little of the Natural Catastrophes that beset the latter half of 2017 will fall back into the 2016 year of account (under 7%).

Final gross written income (net of acquisition costs) is expected to be £282m which is 68% of capacity. We are maintaining our forecast of a profit of between 0% and 10% for the 2016 Year of Account.

2017 YEAR OF ACCOUNT

As any clichéd football pundit would say "2017 was a game of two halves!" We reached the beginning of the hurricane season in a really strong position, well ahead of planned annually accounted profit for the year. What then followed was a succession of natural disasters that left us, and the market, reeling. Hurricanes Harvey, Irma and Maria (HIM), earthquakes in Mexico, and wildfires in California all contributed to an estimate of global losses in the range of $135bn to $140bn, and unsurprisingly Syndicate 609 will pick up significant claims from these events. On a gross basis we currently estimate these losses to cost us a total of $125m, with a final net loss estimate of $86m. Whilst we always plan for an element of natural catastrophe losses in any one year, the actual losses sustained in 2017 far exceeded this planned amount. As mentioned above most of the losses sustained from these events fall onto the 2017 year of account.

Away from the hurricanes there have been a number of notable risk losses that include substantial tornado damage at a university campus in Mississippi (Property RI), Airlander 10 (Aviation) and the Serene (Hull).

During 2017 Atrium has established the capability to provide Shariah compliant (Re)Takaful products through the establishment of Syndicate 2609 as an Additional Syndicate Central Settlement Number (ASCSN) of Syndicate 609. (Re)Takaful is an Islamic alternative to traditional (re)insurance, similar to the mutual insurance model. 'Contributions' are placed in a Participant (Re)Takaful Fund, with claims also being paid out of this fund. The same coverages are offered to the client as with the traditional (re)insurance model. Syndicate 2609 is part of the main Syndicate 609 but has separate bank accounts and processing arrangements to ensure adherence to the Wakalah Waqf "window" (Re)Takaful model. Atrium has appointed a Shariah Advisor who has issued 2609 with a Certificate of Shariah Compliance. Initially we are offering (Re)Takaful coverage for Political Violence and Terrorism.

Final gross written income (net of acquisition costs) is expected to be £290m which is 69% of capacity. At this stage, due to the glut of natural catastrophes, we are currently forecasting a small loss for the 2017 Year of Account.

Whilst this is a report on the various years of account, I cannot let the 2017 annual accounted result go unmentioned. A combined ratio of 99%, and a positive underwriting result of £11.7m is a phenomenal achievement given what the second half of the year threw at us. It is, I believe testament to the skill of our underwriters in writing and creating a core book of sound business.

2018 YEAR OF ACCOUNT AND BEYOND

Looking forward into 2018, there is no doubt that the market conditions will be healthier than those experienced in 2017. When we first wrote a plan for 2018 (back in June 2017 – so pre-HIM) we were forecasting an overall rate reduction for the syndicate of -1.35%. When I look at risks renewed to date in 2018 the actual whole account risk adjusted rate change is a rise of +2%. So definitely better. However if a risk has renewed with 5 years of consecutive 10% rate reductions then it is now paying just under 60% of that original price – as such a 2% rate rise just simply is not enough to re-establish a sustainable and profitable book of business. So whilst it seems that the soft market is over, please do not confuse "better market conditions" with "good market conditions".

We did make a late pre-emption for the 2018 Year of Account taking our stamp up to £450m. Future market conditions were extremely difficult to predict in the immediate aftermath of HIM, and with some commentators suggesting that we had experienced a market turning event (s) we wanted to give ourselves the most amount of premium flexibility possible for 2018. Sadly it now seems that such a pre-emption was not required.

The biggest disappointments have been the renewal terms offered on a handful of heavily loss impacted property and/or marine treaties. There was no sense of "ripping it up and starting again" for clients who, in hindsight, were either paying way too little or whose programmes attached far too low. At renewal these clients found alternatives with markets who had not often paid the claims. I do not blame them for looking elsewhere – this is after all a commercial market, and reinsurance costs are a notable expense, but it is symptomatic of a market where surplus capital remains in abundance. Talking of which I understand that for Lloyd's as a whole 2018 capacity is forecast to be £1.9bn higher than in 2017. Nine new syndicates are commencing for 2018 with a supposed combined stamp of over £450m – that equates to a brand new Syndicate 609 starting up. When I think how hard it is for us to write our business, I simply cannot imagine where these new syndicates will get their business from, and still maintain an appropriate level of anticipated profitability.

For a number of years direct business in Lloyd's has lost money, but because of a lack of Natural Catastrophes the market's results have been positive due to the profits made in underwriters' reinsurance accounts. I hope that without the comfort blanket of a profitable reinsurance class the direct market will be much more exposed and subsequently subject to much more scrutiny by all parties. I have always been extremely proud that we make money in direct business – it is, I think, our greatest achievement over the last few years.

As always it is a pleasure to work with such a dedicated and professional set of underwriters, whose focus on bottom line profit rather than top line growth has consistently produced above average returns for our capital providers. We are more than ably assisted by an Agency that share our ethos of profitability and work tirelessly to provide the perfect platform for us to operate to the best of our ability. As our aforementioned football pundit would say "they all give 110%". We are all ready and primed for a hard market, but unfortunately I currently do not believe that this will be 2018. For a truly hardening market we really need underwriters to leave the Room – we need the amount of capacity to shrink rather than grow.

Toby Drysdale
Active Underwriter, Syndicate 609
8 March 2018

STATEMENT OF COMPREHENSIVE INCOME TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE 2015 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2017

	Notes	£'000
Syndicate allocated capacity		420,061
Earned premiums, net of reinsurance		
Gross premiums written	5	384,524
Outward reinsurance premiums		(38,748)
Earned premiums, net of reinsurance		345,776
Reinsurance to close premium received, net of reinsurance		
At transaction rates of exchange		324,772
Revaluation to closing rates of exchange		(21,867)
Reinsurance to close premium received, net of reinsurance at closing rates of exchange	6	302,905
		648,681
Allocated investment return transferred from the non-technical account		7,917
Claims incurred, net of reinsurance		
Claims paid		
Gross amount		178,602
Reinsurers' share		(10,607)
		167,995
Reinsurance to close premium payable, net of reinsurance	7	298,112
		466,107
Net operating expenses	8	168,643
Balance on the technical account for general business	12	21,848

NON-TECHNICAL ACCOUNT – GENERAL BUSINESS

FOR THE 2015 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2017

	Notes	£'000
Balance on the technical account for general business		21,848
Investment income	11	11,947
Net unrealised losses on investments	11	(2,373)
Investment expenses and charges	11	(1,657)
Allocated investment return transferred to general business technical account		(7,917)
Foreign exchange gains		4,259
Profit for the 2015 closed year of account		**26,107**
Other comprehensive income		30,652
Total comprehensive income for the 2015 closed year of account	**15**	**56,759**

BALANCE SHEET

FOR THE 2015 CLOSED YEAR OF ACCOUNT AT 31 DECEMBER 2017

	Notes	£'000
Assets		
Investments	13	388,233
Debtors	14	24,706
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	7	58,888
Other assets		
Cash at bank and in hand		26,836
Overseas deposits		49,892
Prepayments and accrued income		104
Total assets		548,659
Liabilities		
Amounts due to members	15	54,105
Reinsurance to close premium payable to close the account – gross amount	7	357,000
Creditors	16	134,195
Accruals and deferred income		3,359
Total liabilities		548,659

The 2015 closed year underwriting accounts were approved at a meeting of the Board of Directors of Atrium Underwriters Limited, and by the Active Underwriter, on 14 March 2018 and were signed on its behalf by:

James Lee
Agency Managing Director
14 March 2018

Toby Drysdale

Toby Drysdale
Active Underwriter
14 March 2018

STATEMENT OF CASH FLOWS

FOR THE 2015 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2017

	Notes	£'000
Cash flows from operating activities		
Profit for the year of account		26,107
Net realised and unrealised investment gains		(909)
Currency translation differences		58,899
Increase in debtors		(14,088)
Decrease in creditors		(38,293)
Increase in overseas deposits		(9,047)
Net portfolio investment		11,327
Non-cash consideration for net RITC receivable	18	(302,618)
Net reinsurance to close premium payable		298,112
Net cash inflow from operating activities		**29,490**
Cash flows from financing activities		
Members' agents' fees paid on behalf of members		(2,654)
Net cash outflow from financing activities		**(2,654)**
Net increase in cash and cash equivalents		26,836
Cash and cash equivalents at 1 January 2015		–
Effect of foreign exchange rate changes		–
Cash and cash equivalents at end of financial year		**26,836**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 2015 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2017

1. BASIS OF PREPARATION

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

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

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

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

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

Whilst the directors of the managing agent have a reasonable expectation that the syndicate has adequate resources to continue in operational existence for the foreseeable future, these financial statements represent the participation of members in the 2015 year of account, which closed on 31 December 2017. The accumulated profits of the 2015 year of account will be distributed shortly after publication of these accounts. Therefore the 2015 year of account is not continuing to trade and, accordingly the directors have not adopted the going concern basis in the preparation of these accounts. This has no effect on the amounts reported in the accounts as the 2015 year of account will be closed by payment of a reinsurance to close premium, as outlined in note 7 below, which is consistent with the normal course of business for a Lloyd's syndicate and with the approach we have applied to earlier underwriting years.

2. USE OF JUDGMENTS AND ESTIMATES

In preparing these financial statements, the directors of the Managing Agent have made judgements, estimates and assumptions that affect the application of the syndicate's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

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

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

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

In arriving at the level of claims provisions a margin is applied over and above the actuarial best estimate so no adverse run-off deviation is envisaged. Further information about the risk that the provision for claims outstanding could be materially different form the ultimate cost of claims settlement is included in note 4.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2015 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Insurance classification

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

Gross Premiums Written

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

Reinsurance Premium Ceded

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

Claims Paid and Related Recoveries

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

Reinsurance to Close Premium Payable

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

These methods generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. The amount of salvage and subrogation recoveries is separately identified.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Foreign Currencies

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

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

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

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

Investment Return

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

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

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

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

Operating Expenses

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

Financial Instruments

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

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

Such assets are subsequently carried at fair value.

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

3. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

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

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

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

Fair value measurement

The best evidence of fair value is a quoted price for an identical asset in an active market. When quoted prices are unavailable, the price of a recent transaction for an identical asset provides evidence of fair value as long as there has not been a significant change in economic circumstances or a significant lapse of time since the transaction took place. If the market is not active and recent transactions of an identical asset on their own are not a good estimate of fair value, the syndicate estimates the fair value by using a valuation technique. See note 13 for further information on the syndicate's valuation techniques.

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

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

Taxation

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

No provision has been made for any United States Federal Income Tax payable on underwriting results or investment earnings. Any payments on account made by the syndicate during the year are included in the balance sheet under the heading 'other debtors'.

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

Pension Costs

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

Profit Commission

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

Cash and cash equivalents

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

4. RISK AND CAPITAL MANAGEMENT

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

Risk Management Framework

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

Insurance risk management

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

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

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

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

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

Concentration of insurance risk:

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

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

	Gross Claims Outstanding £'000	Reinsurer's Share of Claims Outstanding £'000	Net Claims Outstanding £'000
UK	26,061	4,299	21,762
Other EU Countries	24,990	4,122	20,868
US	189,567	31,269	158,298
Asia	11,067	1,826	9,241
Canada	28,917	4,770	24,147
Australia	11,424	1,884	9,540
Other	64,974	10,718	54,256
Total	357,000	58,888	298,112

4. RISK AND CAPITAL MANAGEMENT CONTINUED

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

	Gross Claims Outstanding £'000	Reinsurer's Share of Claims Outstanding £'000	Net Claims Outstanding £'000
Accident and health	9,983	1,022	8,961
Motor (third party liability)	158	–	158
Motor (other classes)	3,707	5	3,702
Marine, aviation and transport	70,577	27,592	42,985
Fire and other damage to property	28,232	1,098	27,134
Third party liability	201,059	26,673	174,386
Credit and suretyship	2,630	33	2,597
Legal expenses	2,180	–	2,180
Reinsurance	38,474	2,465	36,009
	357,000	58,888	298,112

Assumptions and sensitivities

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

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

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

	Total comprehensive income impact £'000
5% increase in loss ratios	(23,305)
5% decrease in loss ratios	23,305

Financial risk management

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

Market risk

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

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

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

Foreign currency risk management

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

4. RISK AND CAPITAL MANAGEMENT CONTINUED

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

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

	Sterling £'000	Euro £'000	US Dollar £'000	Can Dollar £'000	Other £'000	Total £'000
Investments	26,342	26,076	310,558	25,257	–	388,233
Debtors	9,883	2,768	4,109	7,503	443	24,706
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	4,714	1,255	52,709	210	–	58,888
Other assets	22,483	4,700	45,714	3,607	224	76,728
Prepayments and accrued income	25	4	68	7	–	104
Total assets	63,447	34,803	413,158	36,584	667	548,659
Reinsurance to close premium payable to close the account – gross amount	41,107	20,624	282,582	12,687	–	357,000
Creditors	29,115	3,308	99,997	1,469	306	134,195
Accruals and deferred income	–	1	1,823	1,535	–	3,359
Total Liabilities	70,222	23,933	384,402	15,691	306	494,554
Net Assets/(Liabilities)	(6,775)	10,870	28,756	20,893	361	54,105

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

	Total comprehensive income impact £'000
10% increase in GBP/US Dollar exchange rate	(1,673)
10% decrease in GBP/US Dollar exchange rate	1,673
10% increase in GBP/Euro exchange rate	4,790
10% decrease in GBP/Euro exchange rate	(4,790)

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

Interest rate risk management

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

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

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

	Total comprehensive income impact £'000
50 basis point increase	(3,514)
50 basis point decrease	3,559

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

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2015 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2017

4. RISK AND CAPITAL MANAGEMENT CONTINUED

Credit risk

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

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

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

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

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

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

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

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

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

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

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

4. RISK AND CAPITAL MANAGEMENT CONTINUED

As at 31 December 2017	AAA £'000	AA £'000	A £'000	BBB £'000	<BBB £'000	Not rated £'000	Total £'000
Investments	64,430	75,941	183,724	41,740	22,398	–	388,233
Debtors	–	615	23,420	–	–	671	24,706
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	–	14,321	40,199	10	3,964	394	58,888
Other assets	28,052	6,657	34,054	4,113	685	3,167	76,728
Prepayments and accrued income	–	–	104	–	–	–	104
Total assets	92,482	97,534	281,501	45,863	27,047	4,232	548,659

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

As at 31 December 2017	Neither past due nor impaired £'000	Past due less than 30 days £'000	Past due 31 to 60 days £'000	Past due 61 to 90 days £'000	Past due more than 90 days £'000	Past due and impaired £'000	Carrying amount £'000
Debtors arising out of direct insurance operations	51	–	–	–	–	–	51
Debtors arising out of direct reinsurance operations	3,346	1,165	217	175	59	–	4,962
	3,397	1,165	217	175	59	–	5,013

Liquidity risk management

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

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

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

4. RISK AND CAPITAL MANAGEMENT CONTINUED

As at 31 December 2017	Less than 1 year £'000	1 – 3 years £'000	3 – 5 years £'000	More than 5 years £'000	Total £'000
Investments	103,568	212,777	67,103	4,785	388,233
Debtors	22,692	2,014	–	–	24,706
Reinsurance recoveries anticipated on gross reinsurance to close premium payable to close the account	19,505	22,453	10,381	6,549	58,888
Other assets	52,342	22,872	1,514	–	76,728
Prepayments and accrued income	104	–	–	–	104
Total assets	198,211	260,116	78,998	11,334	548,659
Amounts due to members	54,105	–	–	–	54,105
Reinsurance to close premium payable to close the account – gross amount	129,448	127,306	55,825	44,421	357,000
Creditors	132,430	1,765	–	–	134,195
Accruals and deferred income	346	3,013	–	–	3,359
Total liabilities	316,329	132,084	55,825	44,421	548,659

Capital management

Capital framework at Lloyd's

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements apply at overall and member level only respectively, not at syndicate level. Accordingly, the capital requirement in respect of Syndicate 609 is not disclosed in these financial statements.

Lloyd's capital setting process

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

A syndicate may be comprised of one or more underwriting members of Lloyd's. Each member's SCR is determined by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to arrive at the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to ensure capital is sufficient to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2018 was 35% of the member's SCR 'to ultimate'.

Provision of capital by members

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

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

5. ANALYSIS OF UNDERWRITING RESULT

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

	Gross premiums written (note 1) £'000	Gross claims incurred (note 2) £'000	Gross operating expenses £'000	Reinsurance balance (note 3) £'000	Total £'000
Direct insurance:					
Accident and health	34,244	14,193	17,671	(1,125)	1,255
Motor (third party liability)	160	70	38	(9)	43
Motor (other classes)	9,781	7,066	3,775	(151)	(1,211)
Marine, aviation and transport	82,956	26,322	41,345	(6,704)	8,585
Fire and other damage to property	117,499	37,370	53,746	(9,727)	16,656
Third party liability	101,827	60,979	44,072	481	(2,743)
Credit and suretyship	4,884	2,545	1,988	(146)	205
Legal Expenses	960	(243)	967	(14)	222
	352,311	148,302	163,602	(17,395)	23,012
Reinsurance	32,213	4,776	10,138	(5,189)	12,110
	384,524	153,078	173,740	(22,584)	35,122
RITC received	302,905	382,524	–	58,428	(21,191)
Total	687,429	535,602	173,740	35,844	13,931

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

6. REINSURANCE TO CLOSE PREMIUM RECEIVABLE

	£'000
Gross notified outstanding claims	143,475
Reinsurance recoveries anticipated	(16,194)
Net notified outstanding claims	127,281
Provision for gross claims incurred but not reported	241,934
Reinsurance recoveries anticipated	(44,443)
Provision for net claims incurred but not reported	197,491
Reinsurance to close premium receivable, net of reinsurance at transaction rates of exchange	324,772
Revaluation to closing rates of exchange	(21,867)
Reinsurance to close premium receivable, net of reinsurance at closing rates of exchange	302,905

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2015 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2017

7. REINSURANCE TO CLOSE PREMIUM PAYABLE

	£'000
Gross notified outstanding claims	146,266
Reinsurance recoveries anticipated	(16,225)
Net notified outstanding claims	130,041
Provision for gross claims incurred but not reported	210,734
Reinsurance recoveries anticipated	(42,663)
Provision for net claims incurred but not reported	168,071
Reinsurance to close premium payable, net of reinsurance	298,112

The reinsurance to close is effected to the 2016 year of account of Syndicate 609.

8. NET OPERATING EXPENSES

	£'000
Acquisition costs:	
Brokerage & Commission	107,624
Other acquisition costs	21,985
	129,609
Administrative expenses	44,131
	173,740
Reinsurance commissions receivable	(5,097)
	168,643

Administrative expenses include:

	£'000
Auditors' remuneration	
Audit services	209
Managing agent's profit commission	14,869

Members' standard personal expenses are included within administrative expenses and amount to £20,574,000.

9. STAFF NUMBERS AND COSTS

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

	£'000
Wages and salaries	15,233
Social security costs	1,626
Other pension costs	1,866
	18,725

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

	Number
Management	6
Underwriting	66
Claims	10
Administration	50
	132

10. REMUNERATION OF THE DIRECTORS OF ATRIUM UNDERWRITERS LIMITED

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

	£'000
Remuneration	1,785

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

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

	£'000
Remuneration	263

11. INVESTMENT RETURN

	£'000
Investment income:	
Income from investments	11,444
Gains on the realisation of investments	503
	11,947
Net unrealised losses on investments:	
Unrealised gains on investments	957
Unrealised losses on investments	(3,330)
	(2,373)
Investment expenses and charges:	
Investment management expenses, including interest	(546)
Losses on the realisation of investments	(1,111)
	(1,657)
Allocated investment return transferred to the technical account	7,917

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2015 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2017

12. BALANCE ON TECHNICAL ACCOUNT

	£'000
Balance excluding investment return and operating expenses	
Profit attributable to business allocated to the 2015 pure year of account	129,958
Profit attributable to business reinsured into the 2015 year of account	52,616
	182,574
Allocated investment return transferred from the non-technical account	7,917
Net operating expenses	(168,643)
	21,848

13. INVESTMENTS

	Fair value £'000	Cost £'000
Shares and other variable yield securities and units in unit trusts	22,771	22,771
Debt securities and other fixed income securities	365,364	368,235
Loans secured by mortgage	71	73
Deposits with credit institutions	27	27
	388,233	391,106

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

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

	Fair value £'000	%
Government/Government Agency	43,369	12.0
AAA/Aaa	27,792	7.6
AA/Aa	69,140	18.9
A	160,925	44.0
BBB	41,740	11.4
BB	22,398	6.1
	365,364	100.0

Fair Value methodology

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

To provide an indication about the reliability of the inputs used in determining fair value, the syndicate has classified its financial instruments into the three levels. Investments carried at fair value have been categorised using a fair value hierarchy. An explanation of each level and the value hierarchy can be found on the next page.

13. INVESTMENTS CONTINUED

Fair value hierarchy

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

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

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

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets				
Shares and other variable yield securities and units in unit trusts	–	22,771	–	22,771
Debt securities and other fixed income securities	13,729	351,635	–	365,364
Loans secured by mortgage	–	71	–	71
	13,729	374,477	–	388,206

14. DEBTORS

	£'000
Arising out of direct insurance operations	
Due from intermediaries	51
Arising out of reinsurance operations	4,962
Other	19,693
	24,706

15. AMOUNTS DUE TO MEMBERS

	£'000
Profit for the 2015 closed year of account	56,759
Members' agents' fee advances	(2,654)
Distributions to members to date	–
Amounts due to members at 31 December 2017	54,105

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2015 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2017

16. CREDITORS

	£'000
Arising out of direct insurance operations	
Due to intermediaries	13,881
Arising out of reinsurance operations	9,716
Managing agent's profit commission	14,190
Other	96,408
	134,195

Other creditors include inter year loans of £83,696,000.

17. CLAIMS DEVELOPMENT

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

The cumulative claims estimates and payments for each underwriting year are translated into pounds sterling at the exchange rates prevailing at 31 December 2017 in all cases..

Analysis of claims development – gross	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	Total £'000
Estimate of ultimate gross claims						
at end of underwriting year	280,489	248,232	250,348	247,465	266,461	
one year later	253,448	207,755	244,677	219,638	254,810	
two years later	244,522	191,147	220,659	204,020	229,054	
three years later	242,813	171,406	208,921	180,450		
four years later	234,106	161,527	195,884			
five years later	228,071	154,847				
six years later	226,022					
Less gross claims paid	188,277	130,353	160,263	121,069	121,547	
Gross ultimate claims reserve	37,745	24,494	35,621	59,381	107,507	264,748
Gross ultimate claims reserve for 2010 & prior years						92,252
Gross claims reserve						357,000

17. CLAIMS DEVELOPMENT CONTINUED

Analysis of claims development – net	2011 £'000	2012 £'000	2013 £'000	2014 £'000	2015 £'000	Total £'000
Estimate of ultimate net claims						
at end of underwriting year	241,541	221,303	224,573	221,272	236,155	
one year later	226,978	193,058	229,115	205,145	233,861	
two years later	210,621	179,441	203,378	194,302	212,270	
three years later	194,946	160,663	192,682	172,940		
four years later	186,382	151,970	180,989			
five years later	181,501	145,679				
six years later	179,798					
Less net claims paid	160,683	122,605	147,449	117,206	116,766	
Net ultimate claims reserve	19,115	23,074	33,540	55,734	95,504	226,967
Net ultimate claims reserve for 2010 & prior years						71,145
Net claims reserve						298,112

18. CONSIDERATION FOR NET RITC RECEIVABLE

Consideration for net RITC receivable comprised:

	£'000
Non-cash consideration:	
Portfolio investments	424,506
Deposits with credit institutions	27
Overseas deposits	43,210
Debtors	10,721
Creditors	(175,847)
	302,617
Cash	22,155
	324,772

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

FOR THE 2015 CLOSED YEAR OF ACCOUNT FOR THE THREE YEARS ENDED 31 DECEMBER 2017

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

Movement in Cash, Portfolio Investments and Financing

	At 1 Jan 2015 £'000	Cash flow £'000	Received as consideration for net RITC receivable £'000	Changes to market value and currencies £'000	At 31 Dec 2017 £'000
Cash at bank and in hand	–	4,966	22,155	(285)	26,836
Overseas deposits	–	9,047	43,210	(2,365)	49,892
Portfolio investments:					
Shares and other variable yield securities and units in unit trusts	–	(2,585)	27,603	(2,247)	22,771
Debt securities and other fixed income securities	–	(4,733)	396,787	(26,650)	365,364
Loans secured by mortgage	–	(3,972)	116	3,927	71
Deposits with credit institutions	–	3	27	(3)	27
Total portfolio investments	–	(11,327)	424,533	(24,973)	388,233
Total cash, portfolio investments and financing	–	2,686	489,898	(27,623)	464,961

The changes to market values and currencies include £(26.6)m relating to currency revaluation of non-Sterling denominated investments and deposits.

20. DISCLOSURES OF INTEREST

Atrium Underwriting Group Limited (AUGL) is a wholly owned subsidiary of Alopuc Ltd (a UK holding company) and Alopuc Ltd is in turn a wholly owned subsidiary of Northshore Holdings Ltd, a Bermudan company. The ultimate beneficial owners of Northshore are Enstar Group Ltd (Enstar) who hold approximately 56.3% economic interest and affiliates of Stone Point Capital LLC (Stone Point) who hold approximately 37.5% economic interest. The balance of shareholding is held by Dowling Capital Partners and Atrium management and staff.

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

Historically AUGL has participated on the managed syndicate through its corporate member subsidiary, Atrium 5 Limited. With effect from the 2017 year of account onwards, this AUGL participation has been through another corporate member within the Enstar Group (SGL No. 1 Limited) under the terms of a lease agreement between SGL No. 1 Limited and Atrium 5 Limited.

	2015 Capacity £m	2016 Capacity £m	2017 Capacity £m	2018 Capacity £m
Syndicate 609	107.1	107.1	107.1	**114.7**

Atrium 5 Limited/ SGL No.1 Limited's participations on the managed syndicate as % of syndicate capacity:

		Year of account		
	2015 %	2016 %	2017 %	2018 %
Syndicate 609	25.5	25.6	25.5	**25.4**

AIAL is a registered Lloyd's UK coverholder and is authorised and regulated by the Financial Conduct Authority. Syndicate 609 leads a binding authority granted to AIAL to underwrite Space business. Under the terms of the binding authority, fees and profit commission are payable by the syndicate to AIAL. Fee income of US$298,000 was paid by the syndicate to AIAL in relation to premium earned on the 2015 year of account. Profit commission is due in relation to the 2015 year of account of $4,000.

20. DISCLOSURES OF INTEREST CONTINUED

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

ASIA carries on for its own account the business of insurance intermediation in Singapore, operating on the Lloyd's Asia platform. In this capacity it has been granted authority by Syndicate 609 to bind certain risks (including marine hull, energy, aviation and non-marine property risks) and has been approved by Lloyd's and the Monetary Authority of Singapore to act as a Lloyd's Singapore Service Company. Under the terms of the arrangement with Syndicate 609, ASIA charges fees to the Syndicate equal to its operating costs plus a small margin for tax reasons. Fees of S$5,335,000 were paid by Syndicate 609 to ASIA on the 2015 year of account. Asia ceased to write business in 2016 and is now in run-off.

ARMS is incorporated in Washington State, United States, and was established to support the Syndicate strategy to maintain and grow its North American direct portfolio and distribution network. ARMS charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of U$1,530,000 were paid by Syndicate 609 to ARMS in respect of the 2015 year of account.

ARMSBC is incorporated in British Columbia, Canada, and was established to support the Syndicate strategy to maintain and grow it's North American direct portfolio and distribution network. ARMSBC charges fees to the syndicate equal to its operating costs plus a small margin for tax reasons. Fees of C$835,000 were paid by Syndicate 609 to ARMSBC in respect of the 2015 year of account.

The Directors' participations on Syndicate 609 via Nomina No. 207 LLP are as follows (this includes any Director of AUL that served during 2017 and was a partner in the staff LLP):

	2015 £	2016 £	2017 £	2018 £
Steve Cook	46,359	–	–	**–**
James Cox	103,610	81,979	74,170	**127,287**
Toby Drysdale	37,723	23,590	19,700	**41,952**
Richard Harries	446,185	317,688	277,611	**519,189**
James Lee	45,527	42,197	56,659	**86,960**
Brendan Merriman	34,145	31,648	32,004	**62,855**
Samit Shah	67,984	50,717	72,526	**112,595**
Kirsty Steward	34,145	21,114	21,461	**27,134**

AUL has made no loans to directors of the company during 2017 (2016 – nil). There were no loans outstanding at the balance sheet date.

Managing agency fees of £2,929,000 were paid by the syndicate to AUL. Profit commission of £14,190,000 is payable by the syndicate to AUL in relation to the 2015 year of account result. The managing agents agreement was amended in 2007 to enable managing agents to make payments on account of profit commission, prior to the closure of a year of account. Payments on account can be made when the syndicate transfers open year surpluses from the syndicate level premium trust funds to the members' personal reserve fund. No such payment was made in 2017. Included within creditors is £14,190,000 in respect of profit commission payable to AUL in relation to the 2015 year of account.

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

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

SEVEN YEAR SUMMARY OF RESULTS

SYNDICATE 609 AT 31 DECEMBER 2017

	Notes	Year of Account 2015 £m	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Syndicate allocated capacity	1	**420**	420	419	418	274	275	200
Aggregate net premiums		**346**	332	339	334	183	193	195
Number of underwriting members		**3,059**	3,116	3,140	3,165	3,128	3,102	2,991
Results for an illustrative share of £10,000		**£**	**£**	**£**	**£**	**£**	**£**	**£**
Gross premiums		**9,154**	8,802	9,370	9,116	8,147	8,508	12,072
Gross premiums %	2	**91.5%**	88.0%	93.7%	91.2%	81.5%	85.1%	120.7%
Net premiums		**8,232**	7,913	8,284	7,978	6,675	7,040	9,758
Net premiums %	3	**82.3%**	79.1%	82.8%	79.8%	66.7%	70.4%	97.6%
Premium for the reinsurance to close an earlier year of account	4	**7,211**	7,323	6,896	6,951	5,916	5,301	7,929
Net claims	5	**3,999**	3,102	3,644	3,049	3,564	2,569	3,469
Premium for the reinsurance to close the year of account		**7,097**	7,733	6,253	6,632	5,256	5,985	7,969
Underwriting profit		**4,347**	4,401	5,283	5,248	3,771	3,787	6,249
Loss/(profit) on exchange		-	-	-	159	(107)	(69)	119
Syndicate operating expenses		**3,525**	3,185	3,343	2,929	2,074	1,944	2,719
Balance on technical account		**822**	1,216	1,940	2,160	1,804	1,912	3,411
Balance on technical account %	6	**9.0%**	18.2%	20.7%	23.7%	22.1%	22.5%	28.3%
Investment return		**188**	194	106	104	89	242	298
Other foreign exchange gains	7	**831**	881	66	-	-	-	-
Profit for closed year of account		**1,841**	2,291	2,112	2,264	1,893	2,154	3,709
Illustrative managing agent's profit commission		**354**	384	381	441	364	416	720
Illustrative personal expenses		**136**	137	139	51	66	69	95
Profit after illustrative profit commission and illustrative personal expenses	8	**1,351**	1,770	1,592	1,772	1,463	1,669	2,894

Notes

1. With effect from 1 January 2014 the 2011 year of account of Syndicate 570 was reinsured to close into the 2012 year of account of Syndicate 609.
2. Gross premiums as a percentage of illustrative share.
3. Net premiums as a percentage of illustrative share.
4. The reinsurance to close premium that has been received by the 2015 year of account has been retranslated to the rates of exchange that were applicable as at 31 December 2017. Reinsurance to close premiums receivable in respect of the 2015 and prior years of account have not been restated.
5. Net claims include internal claims settlement expenses.
6. Balance on technical account as a percentage of gross premiums.
7. With effect from 31.12.15, other foreign exchange gains are reported in the non-technical account and not as other comprehensive income, and not as syndicate expenses.
8. Illustrative personal expenses, including illustrative profit commission, are based on a calculation of amounts incurred by a member writing an illustrative share. For this purpose minimum fee charges are ignored.

Memorandum Item

For an illustrative share of £10,000	Notes	Year of Account 2015 £	2014 £	2013 £	2012 £	2011 £	2010 £	2009 £
Aggregation of annual fee, profit commission and syndicate expenses	7	**985**	900	880	1,037	778	815	1,330

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