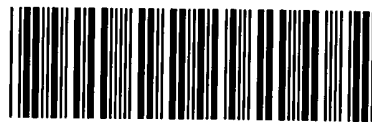


DORNOCH LIMITED

**ANNUAL REPORT
Year Ended
31 DECEMBER 2016**

Registered in England and Wales No. 3087772

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Contents

	Page
Company Information	1
Strategic Report	2
Directors' Report	3
Independent Auditors' Report to the Member of Dornoch Limited	4
Statement of Profit or Loss: Technical Account - General Business	6
Statement of Profit or Loss: Non-Technical Account	7
Statement of Comprehensive Income	7
Statement of changes in Equity	8
Statement of Financial Position	9
Notes to the Financial Statements	11

Company Information

Directors and officers at the date that the report is signed:

Directors

P R Bradbrook
N D Robertson

Company secretary

M L Rees

Registered office
20 Gracechurch Street
London EC3V 0XL
United Kingdom

Independent auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT
United Kingdom

Strategic Report

The directors present their Strategic report of Dornoch Limited ("the Company") for the year ended 31 December 2016.

Principal activities

The Company is a Lloyd's corporate member and provides 100% of the capital of Syndicate 1209 ("the Syndicate") and only supplies capital to this syndicate. The Company is 100% owned by XL London Market Group Limited.

The Syndicate is in run-off and is not participating on the 2016 and subsequent years of account. Catlin Underwriting Agencies Limited ("CUAL") is the managing agent of both Syndicate 2003 and Syndicate 1209.

Future developments

The Syndicate's last year of participation is the 2015 year of account.

Key performance indicators

	2016	2015
Syndicate capacity (£m)	-	300.0
Gross written premium (£m)	36.6	317.7
Net loss ratio (%)	63.8	51.0
Underwriting result (£m)	20.9	12.3
Combined ratio (%)	93.4	95.9
Investment return (%)	1.4	0.4

An analysis of the Company's underwriting by class of business and geographical area is set out in note 4.

This report was approved by the Board of Directors and signed on its behalf by:



P R Bradbrook
Director

29 Sep 2017

Directors' Report

The directors present their report and audited financial statements of the Company for the year ended 31 December 2016.

Future developments

Future developments are discussed in the Strategic report on page 2.

Results and dividends

The results for the year and the state of the Company's position as at 31 December 2016 are shown in the financial statements. No interim dividend was paid and the directors do not propose to pay a final dividend (2015 - £Nil).

Directors

Company directors who hold office at the date of this report are listed on page 1. There were no new appointments or resignations during the year and up to the date of this report.

Statement of disclosure of information to auditors

Each of the persons who are directors at the time when this Directors' Report was approved has confirmed that:

- as far as each director is aware, there is no information relevant to the audit of the Company's financial statements for the year ended 31 December 2016 of which the auditors are unaware; and
- that each director has taken all the steps that ought to have been taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The shareholders have dispensed with the requirements to hold Annual General Meetings and appoint auditors annually, through an elective resolution. PricewaterhouseCoopers LLP have indicated their willingness to continue in office, and as a result they will be deemed to be reappointed for the next financial year.

Statements of Directors' Responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Company's financial statements in accordance with United Kingdom accounting standards including Financial Reporting Standard 102 - "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103 - "Insurance Contracts" ("FRS 103"), both issued by the Financial Reporting Council and other requirements of the Companies Act 2006.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report was approved by the Board of Directors and signed on its behalf by:



P R Bradbrook
Director

29 Sep 2017

Independent Auditors' Report to the members of Dornoch Limited

Report on the financial statements

Our opinion

In our opinion, Dornoch Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Statement of Profit or Loss for the year then ended;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Financial Position as at 31 December 2016;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

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

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanation received

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent Auditors' Report to the members of Dornoch Limited (continued)

Responsibilities for the financial statements and the audit

What an audit of financial statements involves

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

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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

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



Matthew Nichols (Senior statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

29 September 2017

**Statement of Profit or Loss
For the year ended 31 December 2016**

	Note	2016 £000's	2015 £000's
Technical account - General Business			
Earned premium, net of reinsurance			
Premiums written			
Continuing Operations	3	36,649	317,651
Outward reinsurance premiums		(3,867)	(66,183)
		<u>32,782</u>	<u>251,468</u>
Change in the provision for unearned premiums			
Gross amount		155,154	(5,429)
Reinsurers' share		(29,100)	8,291
		<u>126,054</u>	<u>2,862</u>
Earned premiums, net of reinsurance		158,836	254,330
Allocated investment return transferred from the non-technical account	7	10,307	1,805
TOTAL TECHNICAL INCOME		<u>169,143</u>	<u>256,135</u>
Claims incurred net of reinsurance			
Claims paid			
Gross amount		(183,395)	(189,900)
Reinsurers' share		33,081	44,510
		<u>(150,314)</u>	<u>(145,390)</u>
Change in the provision for claims			
Gross amount		70,658	36,966
Reinsurers' share		(21,699)	(21,206)
		<u>48,959</u>	<u>15,760</u>
Claims incurred net of reinsurance		(101,355)	(129,630)
Net operating expenses		(46,938)	(114,181)
TOTAL CHARGES		<u>(148,293)</u>	<u>(243,811)</u>
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		<u>20,850</u>	<u>12,324</u>
Attributable to:			
Continuing operations		<u>20,850</u>	<u>12,324</u>

Statement of Profit or Loss
For the year ended 31 December 2016

	Note	2016 £000's	2015 £000's
Non - Technical account			
BALANCE ON THE TECHNICAL ACCOUNT FOR GENERAL BUSINESS		20,850	12,324
Investment return			
Investment income	7	20,644	19,483
Unrealised gains on investments		9,638	-
Investment expenses and charges	7	(7,359)	(3,821)
Unrealised losses on investments		(12,616)	(12,852)
		<u>10,307</u>	<u>2,810</u>
Allocated investment return transferred to the technical account for general business	7	(10,307)	(1,805)
Gain on foreign exchange		39,257	3,674
Administrative expenses		(226)	(317)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		59,881	16,686
Tax on profit on ordinary activities	9	(11,108)	(2,216)
PROFIT / (LOSS) FOR THE FINANCIAL YEAR		<u>48,773</u>	<u>14,470</u>

Statement of Comprehensive income
For the year ended 31 December 2016

	2016 £000's	2015 £000's
Profit for the financial year	48,773	14,470
Exchange Gain on translations *	41,439	5,813
Tax credit	793	200
Total comprehensive income for the year	<u>91,005</u>	<u>20,483</u>

* The amount included in 2015 has been adjusted to reflect only the exchange gains from functional currency to reporting currency of the financial statements.

Statement of changes in Equity
For the year ended 31 December 2016

	Called up share capital £000's	Profit and loss account £000's	Total £000's
Balance at 1 January 2015	144,328	(384)	143,944
Total comprehensive income for the year	-	20,483	20,483
Balance at 31 December 2015	144,328	20,099	164,427
Total comprehensive income for the year	-	91,005	91,005
Balance at 31 December 2016	144,328	111,104	255,432

Statement of Financial Position - Assets
As at 31 December 2016

	Note	2016 £000's	2015 £000's
INVESTMENTS			
Other financial investments	8	651,537	613,436
REINSURERS' SHARE OF TECHNICAL PROVISIONS			
Provision for unearned premiums	10	7,202	31,792
Claims outstanding	10	104,838	110,229
		<u>112,040</u>	<u>142,021</u>
DEBTORS			
Debtors arising out of direct insurance operations	12	33,601	89,427
Debtors arising out of reinsurance operations	13	21,773	30,120
Other debtors	14	6,364	6,020
		<u>61,738</u>	<u>125,567</u>
OTHER ASSETS			
Cash at bank and in hand		70,839	31,487
Overseas deposits	15	77,653	69,551
		<u>148,492</u>	<u>101,038</u>
PREPAYMENTS AND ACCRUED INCOME			
Deferred acquisition costs	16	8,853	31,396
Other prepayments and accrued income		50	441
		<u>8,903</u>	<u>31,837</u>
TOTAL ASSETS		<u><u>982,710</u></u>	<u><u>1,013,899</u></u>

Statement of Financial Position - Capital and Liabilities
AS AT 31 DECEMBER 2016

	Note	2016 £000's	2015 £000's
CAPITAL AND RESERVES			
Called up share capital	17	144,328	144,328
Profit and loss account		111,104	20,099
		<u>255,432</u>	<u>164,427</u>
TECHNICAL PROVISIONS			
Provisions for unearned premiums	10	44,624	176,653
Claims outstanding	10	571,429	559,601
		<u>616,053</u>	<u>736,254</u>
CREDITORS			
Creditors arising out of direct insurance operations	18	3,509	2,909
Creditors arising out of reinsurance operations	19	30,221	26,746
Amounts owed to credit institutions		39,256	28,844
Other creditors including taxation	20	24,434	47,147
Deferred tax liabilities	21	12,287	3,492
		<u>109,707</u>	<u>109,138</u>
Accruals and deferred income		1,518	4,080
TOTAL LIABILITIES		<u><u>982,710</u></u>	<u><u>1,013,899</u></u>

The financial statements on pages 6 to 32 were approved by the Board of Directors and signed on its behalf by:



P R Bradbrook
Director

29 Sep 2017

Notes to the Financial Statements

1 Accounting Policies

1.1 Basis of preparation

These financial statements have been prepared in accordance with applicable UK accounting standards including Financial Reporting Standard 102 - "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" ("FRS 102"), Financial Reporting Standard 103 - "Insurance Contracts" ("FRS 103"), both issued by the Financial Reporting Council and in compliance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("SI2008/410") relating to insurance companies and other requirements of the Companies Act 2006.

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

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

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

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

- Note 2: Management of financial risk (valuations based on models and unobservable inputs); and
- Note 11: Insurance liabilities and reinsurance assets (estimates for losses incurred but not reported).

The Company consolidates 100% of the results of Syndicate 1209 and as such its accounting policies with respect to technical items are identical to that of the Syndicate.

Capital supporting the business of the Syndicate, referred to as Funds at Lloyd's ("FAL") is, in fact, held in separate trust funds, approximately £295.5m (2015: £82.0m) administered by Lloyd's in addition to amounts held within the syndicate Premium Trust Funds. The amounts held by the Corporate Member outside the Syndicate Premium Trust Funds are available to meet the underwriting obligations of the Syndicate, if required.

1.2 Exemption from preparing cash flow statement

The Company has availed itself of the exemption under FRS 102 section 1 on 'Reduced disclosures for subsidiaries' on the grounds that it is a wholly-owned subsidiary whose ultimate parent is XL Group Limited (a Bermuda company) which prepares a group consolidated cash flow statement in its group consolidated financial statements that are publicly available.

1.3 Exemption from disclosing related party transactions

As the Company is a wholly-owned subsidiary whose ultimate parent is XL Group Limited (a Bermuda company), the Company has taken advantage of the exemption contained in FRS 102 section 33 'Related Party Disclosures' from disclosing related party transactions with entities which form part of the XL Catlin group.

1.4 Basis of accounting

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

(i) Premiums written

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

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

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

(ii) Unearned premiums

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

Notes to the Financial Statements (Continued)

1 Accounting Policies (continued)

1.4 Basis of accounting (continued)

(iii) Acquisition costs

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

(iv) Ceded Reinsurance

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

Any benefits to which the group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of balances due from reinsurers and include reinsurers' share of provisions for claims. These balances are based on calculated amounts of outstanding claims and projections for IBNR, net of estimated irrecoverable amounts, having regard to the reinsurance programme in place for the class of business, the claims experience for the period and the current security rating of the reinsurer involved.

Insurance contracts are those contracts that transfer significant insurance risk. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when due. The group assesses its reinsurance assets for impairment. If there is objective evidence of impairment, then the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the statement of profit or loss.

(v) Claims incurred

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

(vi) Claims provisions and related recoveries

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

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

The amount included in respect of IBNR is based on statistical techniques of estimation applied by the Company's actuaries. These techniques generally involve projecting from past experience of the development of claims over time to form a view of the likely ultimate claims to be experienced for more recent underwriting, having regard to variations in the business accepted and the underlying terms and conditions. For the most recent years, where a high degree of volatility arises from projections, estimates may be based in part on output from rating and other models of the business accepted and assessments of underwriting conditions. Classes of business where claims are typically reported relatively quickly after the claim event tend to display lower levels of volatility.

The provision for claims includes amounts in respect of internal and external claims handling costs.

For general insurance contracts that are of a duration greater than one year incepting prior to this date the full estimate of gross premiums written was recognised at inception.

The reinsurers' share of provisions for claims is based on calculated amounts of outstanding claims and projections for IBNR having regard to the reinsurance programme in place for the class of business and the claims experience for the year. It is net of estimated irrecoverable amounts having regard to the current security rating of the reinsurance companies involved. The Company uses a number of statistical techniques to assist in making the above estimates.

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

Notes to the Financial Statements (Continued)

1 Accounting Policies (continued)

1.4 Basis of accounting (continued)

(vi) Claims provisions and related recoveries (continued)

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

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

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

Reserves recorded within this report have considered the impacts of the "Ogden Rate" change advised on the 27 February 2017.

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

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

(vii) Unexpired risks provision

A provision for unexpired risks is made where claims and related expenses, likely to arise after the end of the financial period in respect of contracts concluded before that date are expected to exceed the unearned premiums after the deduction of any acquisition costs deferred. The expected claims relate to policies in force at the year-end, having regard to events that occur prior to the balance sheet date.

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

(viii) Reinsurance to close (RITC)

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

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

(ix) Financial assets at fair value through the income statement

All financial assets are designated as fair value through the statement of profit or loss upon initial recognition because they are managed and their performance is evaluated on a fair value basis. Purchases and sales are recognised on the trade date, which is the date the group commits to purchase or sell the asset, net of transaction costs. These investments are subsequently carried at fair value.

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

Notes to the Financial Statements (Continued)

1 Accounting Policies (continued)

1.5 Foreign currency

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

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

1.6 Investments

Investments and overseas deposits are stated at current value at the balance sheet date. For this purpose listed investments are stated at bid value and deposits with credit institutions are stated at cost. All other financial instruments are designated as at fair value through profit and loss.

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

1.7 Investment return

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

Realised gains and losses 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 their valuation at the balance sheet date and their purchase price or, where acquired in previous years, their valuation at the last balance sheet date, together with the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

Investment expenses, charges and interest are accounted for as incurred on an accruals basis.

1.8 Cash and cash equivalents

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

1.9 Loans and receivables

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

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

1.10 Financial liabilities

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

Notes to the Financial Statements (Continued)

1 Accounting Policies (continued)

1.11 Taxation

Taxation expense for the period comprises current and deferred tax recognised in the year. Tax is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years and is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year end.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. Deferred tax is recognised on all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

1.12 Prior period re-statement

A prior period gain on foreign exchange reported under non-technical account includes a £6.7m related to exchange gain on translation under statement of Comprehensive income. The tax has been recalculated from the revised profit.

Notes to the Financial Statements (Continued)

2 Management of Financial Risk

Financial risk management objectives

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

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

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

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

(a) Insurance risk

Insurance risk arises from the Company's general insurance business and refers to the risk of loss or of adverse change in the value of insurance liabilities due to inadequate pricing and reserving assumptions. Examples of such risks include unexpected losses arising from fluctuations in the timing, frequency and severity of claims compared to expectations and inadequate reinsurance protection. The Syndicate's underwriting and reinsurance strategies are set within the context of the overall XL Catlin strategies, approved by the Board and communicated clearly throughout the business through policy statements and guidelines.

Capital resource sensitivities

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

Event risk

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

Pricing risk

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

Reinsurance risk

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

Cycle risk

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

Expense risk

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

Underwriting risks are continually monitored through, for example, the established peer review process, underwriting authority limits imposed, round table review and audits, as well as via exception reporting. Formal price monitoring procedures form part of the standard monthly management information. These contribute to the quarterly actuarial review whereby the loss outcome of the underwriting activity is continually re-assessed and considered by the Reserving actuaries. There is a dedicated Catastrophe and Aggregation management function independent of Underwriting management, whose responsibility is to model aggregate risk and support pricing decisions, providing a key control to the underwriting process.

Notes to the Financial Statements (Continued)

2 Management of Financial Risk (continued)

(a) Insurance risk (Continued)

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

Specific scenarios monitored include:

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

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

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

(b) Market risk

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

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

The performance of the investment managers is monitored constantly by XL Catlin group investment specialists and reported monthly to CUAL management and reviewed quarterly by the CUAL Board of directors. The Company aims to manage exchange rate exposure in US dollar terms and asset and liabilities are duration matched. As at the 31 December 2016, more than 90% of the Syndicate's investments are rated A or above. The Company does not use hedge accounting.

Market risk includes:

(i) Interest rate risk

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

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

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

Notes to the Financial Statements (Continued)

2 Management of Financial Risk (continued)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Sensitivity analysis

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

	Impact on profit after tax		Impact on net assets	
	2016	2015	2016	2015
	£000's	£000's	£000's	£000's
50 basis points increase	(11,095)	(9,143)	(11,095)	(9,143)
50 basis points decrease	11,231	9,159	11,231	9,159

(ii) Currency risk

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

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

2016

	GBP £000's	USD £000's	EUR £000's	CAD £000's	AUD £000's	TOTAL £000's
Financial investments	94,525	477,148	56,421	23,443	-	651,537
Overseas deposits	6,179	10,931	-	2,877	57,666	77,653
Reinsurers' share of technical provisions	20,834	89,207	2,899	(1,476)	576	112,040
Insurance and reinsurance receivables	10,328	47,611	(3,523)	317	641	55,374
Cash at bank and in hand	28,472	41,165	379	516	307	70,839
Other assets	7,364	5,861	1,305	110	627	15,267
Total assets	167,702	671,923	57,481	25,787	59,817	982,710
Technical provisions	(136,187)	(375,166)	(61,765)	(6,624)	(36,311)	(616,053)
Insurance and reinsurance payables	(4,048)	(34,819)	3,666	(1,021)	2,492	(33,730)
Other creditors	(35,439)	(29,747)	(4,299)	(19)	(11,870)	(81,374)
Total Liabilities	(175,674)	(439,732)	(62,398)	(7,664)	(45,689)	(731,157)

2015

	GBP £000's	USD £000's	EUR £000's	CAD £000's	AUD £000's	TOTAL £000's
Financial investments	112,377	436,766	46,151	18,142	-	613,436
Overseas deposits	8,612	9,525	-	1,459	49,955	69,551
Reinsurers' share of technical provisions	27,825	108,493	5,014	(293)	982	142,021
Insurance and reinsurance receivables	18,792	92,777	4,919	948	2,111	119,547
Cash at bank and in hand	6,084	20,682	3,823	644	254	31,487
Other assets	10,359	22,192	3,619	143	1,544	37,857
Total assets	184,049	690,435	63,526	21,043	54,846	1,013,899
Technical provisions	(171,708)	(460,448)	(65,048)	(7,457)	(31,593)	(736,254)
Insurance and reinsurance payables	(4,625)	(26,486)	1,576	(1,257)	1,137	(29,655)
Other creditors	(21,855)	(48,662)	(529)	(137)	(13,753)	(84,936)
Total Liabilities	(198,188)	(535,596)	(64,001)	(8,851)	(44,209)	(850,845)

Notes to the Financial Statements (Continued)

2 Management of Financial Risk (continued)

(i) Market risk (continued)

(ii) Currency risk (continued)

Sensitivity analysis

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

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

	Impact on profit after tax		Impact on net assets	
	2016	2015	2016	2015
Changes to Euro, Canadian dollar and US dollar relative to Pound sterling	£000's	£000's	£000's	£000's
Pound sterling weakens 20% against other currencies	17,622	3,601	61,843	23,220
Pound sterling weakens 10% against other currencies	8,741	1,836	27,697	13,864
Pound sterling strengthens 10% against other currencies	(9,137)	(2,013)	(23,122)	(19,076)
Pound sterling strengthens 20% against other currencies	(19,253)	(4,336)	(42,972)	(44,719)

(c) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. Key areas where the Company is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from reinsurers in respect of claims already paid;
- amounts due from insurance contract holders;
- amounts due from insurance intermediaries; and
- amounts due from issuers of debt securities.

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

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

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

Notes to the Financial Statements (Continued)

2 Management of Financial Risk (continued)

(c) Credit risk (continued)

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

2016	AAA £000's	AA £000's	A £000's	BBB £000's	BBB or less £000's	Not rated £000's	Total £000's
Debt securities and other fixed income securities	319,008	112,634	139,821	66,492	4,800	8,782	651,537
Overseas deposits as investments	44,145	17,999	8,447	389	-	6,673	77,653
Reinsurers' share of claims outstanding	-	59,569	45,236	1	32	-	104,838
Cash and cash equivalents	-	-	-	-	-	70,839	70,839
Total credit risk	363,153	190,202	193,504	66,882	4,832	86,294	904,867

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

Notes to the Financial Statements (Continued)

2 Management of Financial Risk (continued)

(c) Credit risk (continued)

The Company has insurance and reinsurance debtors that are past due but not considered to be impaired. The Company does not currently hold any impaired assets (2015: no impaired assets held).

2016	Neither due nor impaired £000's	Up to three months £000's	Three to six months £000's	Six months to one year £000's	Greater than one year £000's	Total £000's
Debt securities	651,537	-	-	-	-	651,537
Overseas deposits	77,653	-	-	-	-	77,653
Reinsurers' share of claims outstanding	104,838	-	-	-	-	104,838
Reinsurance debtors	-	1,498	2,101	968	(1,140)	3,427
Cash at bank and in hand	70,839	-	-	-	-	70,839
Insurance debtors	31,212	2,389	-	-	-	33,601
Other debtors	6,364	-	-	-	-	6,364
Total credit risk	942,443	3,887	2,101	968	(1,140)	948,259

2015	Neither due nor impaired £000's	Up to three months £000's	Three to six months £000's	Six months to one year £000's	Greater than one year £000's	Total £000's
Debt securities	613,436	-	-	-	-	613,436
Overseas deposits	69,551	-	-	-	-	69,551
Reinsurers' share of claims outstanding	110,229	-	-	-	-	110,229
Reinsurance debtors	-	6	10	12	5,612	5,640
Cash at bank and in hand	31,487	-	-	-	-	31,487
Insurance debtors	89,427	-	-	-	-	89,427
Other debtors	6,020	-	-	-	-	6,020
Total credit risk	920,150	6	10	12	5,612	925,790

Notes to the Financial Statements (Continued)

2 Management of Financial Risk (continued)

(d) Liquidity risk

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

The following tables analyse financial liabilities by maturity date:

2016	No stated maturity £000's	0-1 year £000's	1-3 years £000's	3-5 years £000's	>5 years £000's	Total £000's
Claims outstanding	-	196,514	199,143	80,686	95,086	571,429
Creditors	39,059	74,527	-	-	-	113,586
Total liquidity risk	39,059	271,041	199,143	80,686	95,086	685,015

2015	No stated maturity £000's	0-1 year £000's	1-3 years £000's	3-5 years £000's	>5 years £000's	Total £000's
Claims outstanding	-	192,447	195,021	79,015	93,118	559,601
Creditors	29,315	81,196	-	-	-	110,511
Total liquidity risk	29,315	273,643	195,021	79,015	93,118	670,112

Notes to the Financial Statements (Continued)

2 Management of Financial Risk (continued)

(e) Fair value estimation

The categorising of these assets is defined as follows:

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

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

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

The following methods and assumptions are used by the Company in estimating the fair value of its financial instruments, together with its categorisation:

Fixed maturities and short-term investments

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

The Company's Level 3 fixed maturities consist of RMBS, CMBS, ABS and corporate securities, for which pricing vendors and non-binding broker quotes are the primary source of the valuations. The syndicate compares the price to independent valuations, which may also consist of broker quotes, to assess if the prices received represent a reasonable estimate of the fair value. Although the syndicate does not have access to the specific unobservable inputs that may have been used in the fair value measurements of RMBS, CMBS and ABS, the syndicate would expect that the significant inputs considered are prepayment rates, probability of default, loss severity in the event of default, recovery rates, liquidity premium and reinvestment rates. Significant increases or decreases in any of those inputs in isolation could result in a significantly different fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

The Company's level 3 investments also include fixed maturities where the prices provided by vendors have been unchanged for 3 months or more.

Other invested assets

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

The Company's Level 3 other invested assets consist of investments in funds with significant redemption restrictions and unquoted private equity and debt, for which manager NAV statements are the primary source of the valuations. Although the syndicate does not have access to the specific unobservable inputs that may have been used in the fair value measurements, the syndicate would expect the significant inputs for private equity and debt to be discounted cash flows and valuations of similar sized peers. Significant increases or decreases in any of those inputs in isolation could result in a significantly different fair value measurement.

The Company's level 3 investments also include other invested assets where the prices provided by vendors have been unchanged for 3 months or more.

Notes to the Financial Statements (Continued)

2 Management of Financial Risk (continued)

(e) Fair value estimation (Continued)

Other assets and liabilities

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

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

As at 31 December 2016	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Debt securities and other fixed income securities	-	651,537	-	651,537
Overseas deposits	12,988	64,665	-	77,653
Total	12,988	716,202	-	729,190

As at 31 December 2015	Level 1 £000's	Level 2 £000's	Level 3 £000's	Total £000's
Debt securities and other fixed income securities	-	613,436	-	613,436
Overseas deposits	14,172	55,379	-	69,551
Total	14,172	668,815	-	682,987

3 Management of Capital

(a) Capital Framework at Lloyd's

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

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

Although, as described below, Lloyd's capital setting processes use a capital requirement set at syndicate level as a starting point, the requirement to meet Solvency II and Lloyd's capital requirements applies at overall and member level respectively, not at syndicate level. Accordingly the capital requirement in respect of Syndicate 1209 is not disclosed in these financial statements. See note 23 for details of the Syndicate's FAL and FIS requirements.

(b) Lloyd's Capital Setting Process

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

A Syndicate may be comprised of one or more underwriting members of Lloyd's. Each member is liable for its own share of underwriting liabilities on the Syndicate(s) on which it participates but not other members' shares. Accordingly, the capital requirement that Lloyd's sets for each member operates on a similar basis. Each member's SCR shall thus be determined by the sum of the member's share of the Syndicate SCR 'to ultimate'. Where a member participates on more than one Syndicate, a credit for diversification is provided to reflect the spread of risk, but consistent with determining an SCR which reflects the capital requirement to cover a 1 in 200 year loss 'to ultimate' for that member. Over and above this, Lloyd's applies a capital uplift to the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a Lloyd's not a Solvency II requirement, is to meet Lloyd's financial strength, licence and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

(c) Provision of capital by members

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

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

Notes to the Financial Statements (Continued)

3 Segmental analysis

2016	Gross premiums written	Gross premiums earned	Gross claims incurred	Net operating expenses	Reinsurance balances	Total
	£000's	£000's	£000's	£000's	£000's	£000's
Accident and health	(21)	(21)	(7,496)	5	(294)	(7,806)
Motor (other classes)	—	—	15	—	(876)	(861)
Marine aviation and transport	(1,542)	56,536	(40,978)	(13,190)	2,530	4,898
Fire and other damage to property	11,712	33,848	(19,936)	(10,420)	(2,741)	751
Third party liability	16,633	28,937	(36,665)	(7,380)	472	(14,636)
Other	2,574	15,084	(1,187)	(3,029)	(3,445)	7,423
Reinsurance acceptance	7,293	57,419	(6,490)	(12,924)	(17,231)	20,774
Total	36,649	191,803	(112,737)	(46,938)	(21,585)	10,543

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

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

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

Notes to the Financial Statements (continued)

4 Movement in prior year's provision for claims outstanding

An overall release of prior year's provisions for claims during the year of approximately £19.0m (2015: release of £37.5m) was primarily driven by the favourable experience on the Marine accounts in Aviation and Marine of £26.5m (2015: release of £54.7m), and Property and Fire release of £0.5m (2015: release of £5.3m). This is offset by the adverse experience on the Public Liability accounts in Third Party Liability of £11.0m (2015: strengthening of £23.4m).

5 Employees & Directors

No emoluments were paid to the directors during the year (2015: £Nil) as all the directors' emoluments are borne by Syndicate 1209 and the Company had no employees throughout the year (2015: Nil). Staff is employed by a fellow subsidiary XL Services UK Limited and the associated staff costs are borne by Syndicate 1209.

6 Net operating expenses

	2016 £000's	2015 £000's
Acquisition costs	9,878	57,455
Members' standard personal expenses	(383)	2,705
Change in deferred acquisition costs	26,827	(385)
Administrative expenses	12,626	62,121
Reinsurers' commissions	(2,010)	(7,715)
	<u>46,938</u>	<u>114,181</u>

Total acquisition costs for direct insurance accounted for by the Company during the year amounted to £8.4m (2015: £41.4m).

7 Investment return

	2016 £000's	2015 £000's
Investment income		
Income from financial investments	<u>20,644</u>	<u>19,483</u>
	20,644	19,483
Investment expenses and charges		
Investment management expenses	(1,478)	(1,590)
Losses on the realisation of investments	<u>(5,880)</u>	<u>(2,231)</u>
	(7,358)	(3,821)
Net unrealised losses on investments	<u>(2,979)</u>	<u>(12,852)</u>
Investment return	<u>10,307</u>	<u>2,810</u>
Transferred to the technical account	10,307	1,805
Retained in the non-technical account	-	1,005
	<u>10,307</u>	<u>2,810</u>

8 Other financial investments

	Market value		Cost	
	2016 £000's	2015 £000's	2016 £000's	2015 £000's
Debt securities and other fixed income securities	<u>651,537</u>	<u>613,436</u>	<u>678,864</u>	<u>631,541</u>

Member's Funds in Syndicate held within the premium trust funds are £Nil (2015: £243.7m).

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

Notes to the Financial Statements (continued)

9 Tax on profit on ordinary activities

	2016 £000's	2015 £000's
(a) Tax expenses included in statement of profit and loss		
Current tax		
UK corporation tax on profits for the year at 20% (2015: 20.25%)	4,285	9,424
Adjustments in respect of prior periods	(2,765)	(1,083)
Double tax relief	—	(635)
Total current tax charge	1,520	7,706
Deferred tax		
Origination and reversal of timing differences	7,692	(6,045)
Impact of change in tax rate	(699)	234
Adjustments in respect of prior periods	2,595	321
Total deferred tax charge	9,588	(5,490)
Tax on profit on ordinary activities	11,108	2,216

(b) Total tax credit included in other comprehensive income

Deferred tax		
Originating and reversal of timing differences	(810)	(196)
Impact of change in tax rate	17	(4)
Total tax expense /(income) included in other comprehensive income	(793)	(200)

Reconciliation of tax charge

The tax assessed for the year is lower (2015: lower) than the standard rate of corporation tax in the UK of 20% (2015: 20.25%). The differences are explained below:

	2016 £000's	2015 £000's
Profit on ordinary activities before taxation	59,881	16,686
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	11,976	3,379
Foreign tax charge / (credit)	—	(634)
adjustments in respect of prior periods	(171)	(762)
Re measurement of deferred tax- change in UK tax rate	(697)	233
Tax charge for the year	11,108	2,216

Tax rate changes

Changes to the UK corporation tax rates were substantively enacted as part of Finance Bill 2015 (on October 2015) and Finance bill 2016 (on 7 September 2016). These include reduction to the main rate to reduce the rate to 19% from 1 April 2017 and to 17% from 1 April 2020.

Notes to the Financial Statements (continued)

10 Insurance liabilities and reinsurance assets

	Provision for unearned premium £000's	Claims Outstanding £000's
2016		
Gross Technical Provisions		
As at December 31, 2015	176,653	559,601
Movement in the provision	(155,154)	(70,559)
Foreign exchange movements	23,125	82,387
As at 31 December 2016	<u>44,624</u>	<u>571,429</u>
Reinsurers' share of technical provisions		
As at December 31, 2015	31,792	110,229
Movement in the provision	(29,101)	(21,699)
Foreign exchange movements	4,511	16,308
As at 31 December 2016	<u>7,202</u>	<u>104,838</u>
Net technical provisions		
As at December 31, 2015	144,861	449,372
As at 31 December 2016	<u>37,422</u>	<u>466,591</u>

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

	Provision for unearned premium £000's	Claims Outstanding £000's
2015		
Gross Technical Provisions		
As at December 31, 2014	162,419	587,406
Movement in the provision	(5,429)	(36,966)
Foreign exchange movements	19,663	9,161
As at 31 December 2015	<u>176,653</u>	<u>559,601</u>
Reinsurers' share of technical provisions		
As at December 31, 2014	22,695	128,353
Movement in the provision	8,291	(21,206)
Foreign exchange movements	806	3,082
As at 31 December 2015	<u>31,792</u>	<u>110,229</u>
Net technical provisions		
As at December 31, 2014	139,724	459,053
As at 31 December 2015	<u>144,861</u>	<u>449,372</u>

Notes to the Financial Statements (continued)

11 Claims development triangles

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

Gross claims development as at December 31, 2016

	2010 & Prior	2011	2012	2013	2014	2015	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
12 months		232,677	108,347	92,381	103,533	91,248	
24 months		261,914	209,972	205,659	210,666	203,717	
36 months		255,641	210,550	200,477	216,512		
48 months		241,375	202,872	198,601			
60 months		252,500	211,516				
After 72 months		251,535					
Estimated total losses	5,730,408	251,535	211,516	198,601	216,512	203,717	6,812,289
Paid claims	(5,552,440)	(206,052)	(137,491)	(131,007)	(132,670)	(81,200)	(6,240,860)
Gross reserves	177,968	45,483	74,025	67,594	83,842	122,517	571,429

Net claims development as at 31 December 2016

	2010 & Prior	2011	2012	2013	2014	2015	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
12 months		204,120	99,568	79,642	81,386	71,831	
24 months		205,734	186,496	182,795	172,203	171,598	
36 months		193,176	189,870	178,280	173,294		
48 months		180,425	183,303	179,246			
60 months		187,732	193,523				
After 72 months		187,362					
Estimated total losses	4,009,378	187,362	193,523	179,246	173,294	171,598	4,914,401
Paid claims	(3,880,158)	(146,797)	(125,808)	(116,428)	(109,319)	(69,300)	(4,447,810)
Net reserves	129,220	40,565	67,715	62,818	63,975	102,298	466,591

12 Debtors arising out of direct insurance operations

	2016	2015
	£000's	£000's
Due within one year	33,601	89,427

Notes to the Financial Statements (continued)

13 Debtors arising out of reinsurance operations

	2016 £000's	2015 £000's
Due within one year	<u>21,773</u>	<u>30,120</u>

14 Other debtors

	2016 £000's	2015 £000's
Amounts due from group undertakings	<u>6,364</u>	<u>6,020</u>
	<u>6,364</u>	<u>6,020</u>

15 Overseas deposits

	2016 £000's	2015 £000's
Illinois – USA	3,550	3,506
Joint Asset Trust Fund – USA	1,701	1,398
Australian Deposit	53,789	49,184
Joint Asset Trust Fund – Australia	3,872	2,364
South African Deposit	236	213
Additional Securities Limited:	6,673	7,129
Kentucky – USA	4,955	4,298
Canadian Margin Fund	2,877	1,459
	<u>77,653</u>	<u>69,551</u>

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

16 Deferred acquisition costs

	2016 £000's	2015 £000's
On insurance contracts	<u>8,853</u>	<u>31,396</u>

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

	2016 £000's	2015 £000's
At 1 January	31,396	29,436
Expenses for the acquisition of contracts deferred during the year	(23,572)	385
Foreign exchange losses	1,029	1,575
At 31 December	<u>8,853</u>	<u>31,396</u>

Notes to the Financial Statements (continued)

17 Called up share capital

	2016 £000's	2015 £000's
Authorised, issued and fully paid 144,327,745 ordinary shares of £1 each	<u>144,328</u>	<u>144,328</u>

18 Creditors arising out of direct insurance operations

	2016 £000's	2015 £000's
Due within one year	<u>3,509</u>	<u>2,909</u>

19 Creditors arising out of reinsurance operations

	2016 £000's	2015 £000's
Due within one year	<u>30,221</u>	<u>26,746</u>

20 Other creditors including taxation

	2016 £000's	2015 £000's
Amounts due to group undertakings	21,770	37,674
Current tax liability	2,664	9,137
Other creditors	-	336
	<u>24,434</u>	<u>47,147</u>

21 Deferred tax liabilities

	2016 £000's	2015 £000's
Other timing differences	<u>12,287</u>	<u>3,492</u>
Deferred tax liability at 31 December	<u>12,287</u>	<u>3,492</u>
Balance at 1 January	3,492	9,182
Deferred tax (charge) / credit in statement of profit or loss for the financial year	9,588	(5,490)
Deferred tax (credit)/charge in statement of comprehensive income for the financial year	(793)	(200)
Balance at 31 December	<u>12,287</u>	<u>3,492</u>

The net deferred tax liability expected to reverse in 2017 is £7,704,279. This primarily relates to the reversal of timing differences on syndicate untaxed profits and claims equalisation provisions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 RESTRICTED ASSETS AND CAPITAL COMMITMENTS

Of the total assets disclosed on the Company's balance sheet £509.2m (2015: £777.4m) are subject to Lloyd's Premium Trust Funds ("PTFs") or will become subject to the PTFs on realisation. These funds are released to the Company on the closing of the 2014 and 2015 years of account or in accordance with Lloyd's release test in the case of the Funds in Syndicate ("FIS") which as at 31 December 2016 totalled £Nil (2015: £243.7m).

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

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

As at 31 December 2016, the value of FAL is £295.5m (2015: £82.0m).

24 ULTIMATE PARENT AND CONTROLLING PARTY

The Company is a wholly-owned subsidiary of XL London Market Group Ltd, a company incorporated in England and Wales.

Since 25 July 2016, following the completion of a redomestication transaction, the Company's ultimate parent company is XL Group Limited, a company registered in Bermuda. Previously, the ultimate parent company was XL Group plc, a company registered in Ireland. At 31 December 2016 XL Group Limited was the parent Company of the smallest and largest group of undertakings for which the group financial statements are drawn up.

The results of the Company are consolidated within the financial statements of XL Group Limited. Copies of the audited financial statements of both parent undertakings can be obtained from the Company Secretary, 20 Gracechurch Street, London EC3V 0XL.