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ICAT Special Purpose Syndicate 6123

Syndicate Annual Report and Financial Statements

31 December 2015

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Directors and Administration

Managing Agent

Asta Managing Agency Ltd

Directors

T A Riddell, Chairman and Non-Executive Director
Y A Bouman (Resigned 12 February 2016)
G M J Erulin, Non-Executive Director
L Harfitt
A J Hubbard, Non-Executive Director
D J G Hunt
D F C Murphy, Non-Executive Director
S P A Norton
J W Ramage, Non-Executive Director
J M Tighe

Company Secretary

C Chow

Managing Agent's Registered Office

5th Floor Camomile Court
23 Camomile Street
London
EC3A 7LL

Registered Number

01918744

Syndicate

Active Underwriter

M H McConnell

Host Syndicate/Reinsured

Syndicate 4242

Registered Auditors

KPMG LLP

Signing Actuary

N Sharif, KPMG LLP

Annual Report of the Directors of the Managing Agent

31 December 2015

The directors of the Managing Agent (the directors) present their report below, together with the audited financial statements for Special Purpose Syndicate 6123 (the SPS), for year ended 31 December 2015 on pages 18 to 39.

The directors prepared this annual report using the annual basis of accounting required by Statutory Instruments No. 1950 of 2008, the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008. The directors provide separate accounts for closed underwriting years to the Syndicate's members in accordance with Lloyd's Syndicate Byelaw No. 8 of 2005.

Managing Agent

The Managing Agent for the SPS is Asta Managing Agency Ltd (Asta). Asta also manages eight syndicates and two other special purpose syndicates on behalf of supporting third parties. The financial statements of the Managing Agent can be obtained by application to the Managing Agent's Registered Office listed on page 2.

Results

The SPS generated a loss of $1.8 million on gross written premiums of $6.6 million.

This table details the directors' forecast for the 2015 open underwriting year.

	$000
Loss	(612)
Return on insurance capacity	-4.9%

Principal Activities

The SPS transacts inwards proportional reinsurance business on a variable basis in the United Kingdom (U.K.) within the Lloyd's market. The SPS commenced operations on 2015 May 1 and specialises in reinsuring the policies of Syndicate 4242 (the Host Syndicate) covering certain middle market businesses located in areas of the United States (U.S.) that are prone to hurricanes and earthquakes; the SPS accepts up to 80% of the related written premiums on these policies with total insured values with $10 million or more, subject to a limit of $5 million on each policy.

Reinsured hurricane policies include coverage for tropical storms and also provide attritional protection against tornados, hail, and other windstorm risks. Reinsured policies also offer limited flood coverage when purchased alongside hurricane or earthquake coverage and All Other Peril (AOP) coverage. AOP coverage provides protection against fires, theft, vandalism, water damage, and other covered property perils.

The Host Syndicate and SPS contract with certain wholly owned subsidiaries of Paraline Group, Ltd, a Bermuda based insurance organisation, for certain insurance services; these subsidiaries include International Catastrophe Insurance Managers, LLC (ICAT Managers), Boulder Claims, LLC (Boulder Claims), and Paraline International, Ltd (Paraline International). ICAT Managers and Boulder Claims are Delaware companies, while Paraline International is a Bermuda company.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

ICAT Managers underwrites most of the Host Syndicate's insurance business as its primary coverholder. ICAT Managers also runs the SPS's reinsurance business. Although the Host Syndicate and SPS delegate day-to-day underwriting and related reinsurance and operational management responsibility to ICAT Managers, the directors of both syndicates regularly review the results of the coverholder's monitoring procedures and supplement these procedures with Managing Agent and third party audits. Paraline International also provides underwriting oversight for the Host Syndicate.

Boulder Claims provides claims administration services to the Host Syndicate and SPS. The Managing Agent contracts with a third party to coordinate oversight of Boulder Claims.

The insurance services that ICAT Managers and Boulder Claims (collectively, ICAT) provide to the Host Syndicate and by extension to the SPS account for 53.8% of their total business. ICAT also provides services to other syndicates and insurance carriers and claims services to a state sponsored risk pool. ICAT's main office is in Broomfield, Colorado.

Business Review

Business Summary

The Host Syndicate entered into a binding authority agreement with ICAT to underwrite insurance business and the SPS proportionately reinsures a portion of this business. ICAT writes this business in the underwriting regions of the U.S. below.

i. Eastern Seaboard

ii. Florida

iii. Gulf Coast

iv. Hawaii

v. Earthquake (primarily California, the U.S. Pacific Northwest, the U.S. Intermountain West, Alaska, the New Madrid area of the U.S., and Hawaii)

The SPS's insurance capacity is £8.0 million ($11.8 million) at 31 December 2015. Insurance capacity is a measure of the maximum gross premiums, net of acquisition costs that the SPS is eligible to write; the SPS wrote $4.8 million in such premiums during the year.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

Key Financial Performance Indicators

In the opinion of the directors, the key financial performance indicators below best represent the performance and position of the SPS.

	2015 $000
Gross written premiums:	
Eastern Seaboard	1,115
Florida	2,620
Gulf Coast	992
Hawaii	2
Earthquake	1,884
Total gross written premiums	6,613
% of insurance capacity	38.4%
Outward reinsurance premiums	(3,192)
Loss for the financial year	(1,806)
Members' balances	(1,806)

The SPS recognised a loss for three reasons: lower than planned writings, the purchase of more reinsurance than needed, and the immediate recognition of operating expenses paired with deferral of earnings on gross written premiums in a start-up year. Further, the SPS expensed a large share of its purchased reinsurance, mostly consisting of catastrophe coverage for the 2015 storm season, during the year.

The SPS originally expected to write $17.1 million in gross premiums during year from inwards reinsurance acceptances by reinsuring up to 50% of certain Host Syndicate middle market business policies with total insured values of more than $25 million. The SPS, however, got off to a later and slower start to its operations than expected. Further, the volume of qualifying Host Syndicate policies was lower than anticipated. The SPS, therefore, amended its reinsurance agreement with the Host Syndicate during the second half of the year to increase its overall writings by reinsuring up to 80% of all the Host Syndicate's middle market business policies with total insured values of $10 million or higher. The SPS effectively picked up 10% of ICAT's renewal business and 20% of its new business for middle market accounts between $10 and $20 million as a result of this amendment. Accounts over $20 million still follow ICAT's standard carrier allocation process to which the SPS is a part of, subject to an overall limit of $5 million on each account for the SPS.

The SPS originally purchased reinsurance based on the volume of gross premiums it expected to write, and accordingly, this resulted in the SPS purchasing more reinsurance than it needed. The SPS, however, renegotiated its reinsurance agreements during the second half of the year to partially and retroactively address this issue; these renegotiations resulted in the SPS's reinsurers offering a no catastrophe claims bonus to the SPS along with certain reductions in coverage and the corresponding costs, including minimum premiums.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

The 2015 Atlantic hurricane season was a slightly below average season with 11 named storms. Tropical Storm Ana made landfall near North Myrtle Beach, South Carolina on 10 May, making it the earliest U.S. storm landfall on record. Tropical Storm Bill made landfall near Matagorda Island, Texas and remained over land for a few days which caused flooding. The 2015 Pacific hurricane season was the second most active Pacific hurricane season on record with 26 named storms. Hurricanes Guillermo, Hilda, Jimena, Kilo, and Ignacio along with Tropical Storm Niala affected Hawaii with heavy rains and high surf, though none of them actually made landfall. Despite an active season in both the Atlantic and Pacific basins, the SPS did not suffer significant catastrophe losses. Just a few AOP claims with minimal losses were reported to the SPS in 2015.

Lower than planned writings and the purchase of more reinsurance than needed discussed above, resulted in a loss for the year; the deferral and ratable recognition gross written premiums over the incidence of risk, but immediate recognition of operating expenses in a start-up year also contributed to this loss along with the recognition of 2015 storm season related catastrophe reinsurance costs during the year. The absence of significant catastrophe and AOP losses during the year, however, eased the overall loss.

Non-financial Key Performance Indicators

The Managing Agent contracts with ICAT to perform a majority of the SPS's activities. The Managing Agent's staff, however, reviews and monitors the activities of ICAT and provides actuarial (both reserving and capital modelling), regulatory compliance, and risk management services to the SPS. The Managing Agent is responsible for the environmental activities of the SPS, although by their nature, insurers generally do not produce significant environmental emissions. Therefore, the directors do not consider it appropriate to monitor and report any performance indicators for environmental matters.

Outward Reinsurance Arrangements

Catastrophe Coverage – The SPS has layered catastrophe reinsurance to protect against the adverse accumulation of the losses below from multiple reinsured policies as a result of large catastrophic events.

i. First event: Losses in excess of $3 million up to $43 million

ii. Second event: Losses in excess of $5 million up to $25 million

The top $10 million layer of the SPS's first event reinsurance only covers earthquakes. If the SPS exhausts any of its catastrophe reinsurance, a portion of the coverage is automatically reinstated for additional premiums to protect against more catastrophic events during the rest of the coverage term, subject to certain aggregate limits.

With the exception of the last layer of the SPS's first event coverage, the reinsurers charge the SPS flat premiums for the coverage they provide. Also, the first layer of the SPS's first event coverage has a no claim bonus, where the reinsurers agree to return 15% of the layer's premiums to the SPS subject to no claims being paid under the layer.

Attritional Catastrophe Coverage – The SPS has attritional catastrophe reinsurance to protect against tornados, hail, and other windstorm events, each with losses in excess of $333,333 up to $1.3 million with no reinstatement.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

All Other Peril Coverage – The SPS has reinsurance to fully protect against the occurrence of losses from other perils such as large fires. The SPS reinsures losses excluding flood, earthquake, windstorm or hail in excess of $1 million for each building up to $5.7 million and events damaging several buildings in the same location with losses in excess of $666,666 up to $1.6 million. For multiple sinkhole collapse and terrorism events, total coverage is limited to $11.7 million. The SPS earns contingent profit commissions on this coverage equal to 25% of the excess of ceded premiums over deductions for underwriting expenses (equal to 35% of ceded premiums) and any claims, including adjustment expenses being paid under the coverage.

Future Outlook

The SPS is still scaling up its business and plans to grow as a result. The SPS also expects that it will increase its business by effectively taking a larger share of ICAT's middle market accounts. The directors forecast that the SPS will write gross premiums of $22.1 million in 2016. The SPS expects to purchase more reinsurance to support this planned growth.

Foreign Exchange

Foreign exchange is not significant to the SPS, since the SPS transacts all of its business in U.S. Dollars.

Principal Risks and Uncertainties

The following paragraphs summarise the principal risks and uncertainties facing the SPS.

Insurance Risk

Underwriting Risk – Underwriting risk may either arise from an inaccurate assessment of the risks entailed in writing an insurance policy or from factors wholly out of the SPS's control. As a result, losses paid by the SPS may exceed earned premiums. The SPS tries to reduce underwriting risk by basing its risk appetite on its maximum loss tolerance. The SPS sets its tolerance for catastrophe losses based on nationwide and regional Exceedance Probabilities (EP) in the U.S., as well as on Realistic Disaster Scenarios (RDS) designed to stress test the SPS for material catastrophe risks at different probability levels by potential loss of capital. The EP is the probability that losses exceed a certain threshold for a catastrophic loss event at a selected probability of occurrence. The SPS generally quantifies its risk appetite at the 99.5% EP level or the 1 in 200 year loss. RDS include the events below.

i. Windstorm in the Northeastern U.S.

ii. Windstorm in the Carolinas

iii. Two separate Florida windstorms (Miami-Dade and Pinellas)

iv. Windstorm in the U.S. Gulf

v. Two separate California earthquakes (Los Angeles and San Francisco)

vi. New Madrid area of the U.S. earthquake

vii. Two separate Syndicate-specific scenarios (Mississippi windstorm and U.S. Pacific Northwest earthquake)

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

The SPS's 1 in 200 year nationwide EP estimated losses reached $29.6 million by the peak of the 2015 hurricane season. The SPS monitors its EP estimated losses throughout the year. The SPS sets its tolerance for AOP losses at the building and location level. ICAT monitors the SPS's loss exposures against its underwriting risk appetite using various methods, including RDS modelling. Also, the SPS periodically evaluates and adjusts its reinsurance protection to manage its overall retention of insurance risk.

Under the binding authority agreement with the Host Syndicate, ICAT underwrites all of the policies that the SPS proportionately reinsures. Underwriters adhere to daily monitored regional blueprints, which identify where the Host Syndicate's and by extension the SPS's insurance capacity should be deployed. These blueprints, with their defined underwriting guidelines alongside modelling and pricing practices, determine the prescribed range of rates at which ICAT may sell insurance capacity. Underwriters must refer underwriting decisions for risks outside of those outlined in the blueprints or in excess of their authority limit to higher levels of authority. ICAT audits the individuals who have binding authority in both groups on a regular basis to ensure adherence to established underwriting authority limits. ICAT also conducts other underwriting audits on an ad-hoc basis and reviews significant risks written each month. The Managing Agent also has its own controls.

The Managing Agent has a governance structure in place to monitor the underwriting and loss exposure management controls of ICAT. The Managing Agent appoints the SPS Board (the Board), which manages the SPS. The Board ensures the appropriate management of the SPS in accordance with the Managing Agent's responsibilities. The Board meets quarterly and has delegated authority to approve underwriting related matters, including:

i. non-material changes to the business plan,

ii. underwriting authority levels and guidelines,

iii. operational and ICAT procedures,

iv. risk policies, the risk register, and all other risk management matters, and

v. the SPS's compliance plan.

The Managing Agent also monitors the SPS's performance against its underwriting risk appetite in several ways, including regular meetings with the Active Underwriter and participation in the monthly meetings of the Production Risk Management Committee (the Committee), which is a subcommittee of the Board, that considers reports from the Active Underwriter and other areas of the business. The Committee also reviews underwriting related matters, including:

i. progress against the business plan or forecast,

ii. premium rates and volumes,

iii. overall loss exposures,

iv. significant product and premium rate changes;

v. market conditions, and

vi. the outcome of underwriting audits covering the operations of ICAT.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

Furthermore, Paraline International provides oversight of the underwriting policies adopted by the Active Underwriter. Paraline International identifies key underwriting and reinsurance guidelines and limitations in ICAT's binding authority agreement and the reinsurance agreement between the Host Syndicate and the SPS and monitors ICAT's adherence to these guidelines including consideration of material changes in authority, risk profile, reinsurance, and any breaches of agreement.

The SPS's annual business planning process sets the targets for written premiums and overall profitability for the coming year. Factors taken into account in determining these targets include the risk appetite of the SPS's capital providers, reinsurance agreement terms and conditions, and other risk metrics.

Reserving Risk – The SPS's financial condition and profitability depend heavily on its ability to accurately assess its liability for claims outstanding from its reinsured risks. The SPS tries to reduce the risk associated with this assessment by hiring qualified third party claims administrators that have specialised adjusters and forensic engineers to set reserves on notified damaged properties. Both ICAT and the Managing Agent review these reported claims monthly. The SPS also employs standard actuarial methods to assess its overall best estimate of reserves for each underwriting account quarterly using historical losses loaded for future uncertainty in areas where reserves may prove to be materially inadequate; this assessment process requires ongoing discussions between the SPS's actuaries and the underwriters and claims adjusters of ICAT, and includes various levels of approval supplemented by external actuarial validation. The SPS's actuaries track projected loss ratios quarterly and may reassess their reserving methods if necessary. The Board approves the reserves of the SPS quarterly, after considering the recommendation of the Reserve Committee (a subcommittee of the Board).

Catastrophe Risk – The occurrence of adverse economic conditions, natural or other disasters, or other circumstances specific to or otherwise significantly impacting the regions and states in which the SPS mainly reinsures business in may adversely affect its profitability and financial condition. The SPS tries to limit this risk through geographic diversification. ICAT uses catastrophe models to set the SPS's overall loss exposure limits; these models include provisions for secondary uncertainty, loss amplification (demand surge), storm surge coverage leakage. ICAT models every property in the Host Syndicate's book of business and by extension the SPS's reinsurance business monthly using adjusted modelling parameters to address observed deficiencies in these models to better reflect historical losses. In managing the Host Syndicate's risk appetite, ICAT allocates limits to various geographic zones. The identification and determination of each zone and its area as well as whether to include a particular policy within a zone's limits requires significant judgment. ICAT controls and limits the Host Syndicate's concentration of risk within these zones as well as the risk at the neighbourhood and street level using an accumulation tool.

In addition to the SPS's catastrophe risks, the SPS's profitability and financial condition may be adversely affected by unexpectedly large accumulations of AOP losses. ICAT tries to reduce this risk to the SPS by using appropriate underwriting processes for the Host Syndicate, which include inspections of every property, to guide the pricing and acceptance of risks. These processes help to ensure that premiums cover the expected levels of loss.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

The SPS tries to limit its risk of insolvency from a single large catastrophe or multiple smaller catastrophes by purchasing reinsurance. The SPS evaluates the probability of catastrophes using a catastrophe model that quantifies its hurricane and earthquake related loss exposures. ICAT developed the catastrophe model used by the SPS by applying its model adjustment methodology on a model from a major vendor to align the vendor model to the SPS's assessment of risk. The SPS applies ICAT's model adjustment methodology because it estimates building vulnerability, storm surge coverage leakage, losses from inland risks and coastal risks, and landfall frequency and severity more precisely than the vendor model. The SPS validates the results from ICAT's methodology against alternate models from other major vendors.

Reinsurance Risk – The cost of reinsurance also impacts the SPS where the availability of reinsurance and associated pricing is subject to prevailing market conditions which fluctuate in cycles over time. These cycles are affected by various factors including the frequency and severity of worldwide catastrophic events, market capacity, competition, and general economic conditions. The SPS monitors market cycles and seeks favourable reinsurance pricing with a diversified group of secure reinsurers.

Operational Risk

Operational risk is the risk that events caused by people, internal controls, processes, or systems lead to losses for the SPS. The Managing Agent together with ICAT and Paraline International try to manage this risk for the SPS by having detailed procedure manuals in place. They also have business continuity and disaster recovery plans in place. The close involvement of the directors in the SPS's key decision making further reduces the risk of these losses.

Market Risk

Interest Rate Risk – The SPS has no investments, and therefore has no exposure to interest rate risk.

Currency Risk – The SPS writes all its business in U.S. Dollars, which is its functional currency. The SPS also keeps all of its reinsurance balances in U.S. Dollars. The SPS has Great British Pound expenses; these expenses, however, do not create material currency risk for the SPS. The SPS has no exposure to other currencies.

Investment Price Risk – The SPS has no investments, and therefore has no exposure to investment price risk.

Credit Risk

Bankruptcy, liquidity problems, distressed financial condition, or the general effects of today's economic environment may increase the risk that policyholders or intermediaries, such as insurance agents and brokers, may not pay a part of or the full amount of premiums owed to ICAT, despite an obligation to do so. If non-payment becomes widespread, whether as a result of bankruptcy, lack of liquidity, adverse economic conditions, operational failure, or otherwise, it could have a material adverse impact on the financial condition of ICAT and its ability to pay the premiums it in turn owes to the Host Syndicate and the Host Syndicate in turn owes the SPS. No single agent, broker, or policyholder accounted for more than 13.2% of the premiums that ICAT wrote for the Host Syndicate and 13.4% of the Host Syndicate's premium balances due at 31 December 2015. Further, the insurance policies that the SPS reinsures may be cancelled for non-payment from policyholders.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

The SPS transfers significant amounts of insurance risk to reinsurers. If these reinsurers fail to honor their obligations, the SPS's financial condition, profitability, and cash flows could be adversely affected. The SPS tries to reduce this risk by setting maximum exposure and credit limits for each of its reinsurers based on their industry credit rating and net asset balance. The SPS regularly evaluates the financial condition and payment performance of its reinsurers with the help of outside brokers; evaluations include reviewing credit ratings and monitoring concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics to minimise the SPS's exposure to significant losses from reinsurer insolvencies. The SPS mostly purchases reinsurance from reinsurers with an A.M. Best or Standard & Poor's rating of A or better. If a reinsurer does not have an A or better rating, the Syndicate may obtain collateral from the reinsurer to secure their reinsurance obligations. The SPS had no collateral from its reinsurers at 31 December 2015 to secure their obligations. There were no catastrophe or AOP reinsurance recoveries outstanding at 31 December 2015.

Liquidity Risk

The Host Syndicate pays insurance claims and other liabilities on the SPS's behalf in accordance with the funds withheld and inter-syndicate loan arrangements that SPS has with the Host Syndicate. Under the inter-syndicate loan arrangement that the SPS has with the Host Syndicate, the Host Syndicate may advance up to $10 million to the SPS. The SPS's operations, however, could be adversely affected if the Host Syndicate did not have enough cash to pay the SPS's obligations. The Host Syndicate tries to reduce this risk by reviewing its expected cash obligations on a quarterly basis and keeping adequate cash on deposit to meet those obligations. The Host Syndicate settles the SPS's payment obligations in accordance with the vendor terms of each transaction. At 31 December 2015 billings were 22 days outstanding. The Host Syndicate holds any excess funds in cash or invests them in money funds readily convertible to cash without excessive cost to the business. The Host Syndicate also has a $35 million letter of credit facility from Barclays Bank PLC.

Regulatory and Compliance Risk

The SPS is subject to continuing approval by Lloyd's to operate in the Lloyd's market and must comply with the regulatory requirements set by Lloyd's, the Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA). Lloyd's requirements include those imposed on the Lloyd's market by overseas regulators, particularly by U.S. regulators concerning U.S. risks underwritten by the Lloyd's market. The SPS tries to reduce the risk of its approval to operate in the Lloyd's market being revoked by monitoring and fully complying with all of its regulatory obligations. The Managing Agent helps the SPS in this regard by regularly monitoring regulatory and legal compliance related developments and assessing the impact of these developments on agency and SPS policies.

Insurance business is state regulated in the U.S., and therefore, state legislatures may enact laws that adversely affect the industry. Such unfavourable changes could adversely impact the Host Syndicate's operations and by extension the operations of the SPS. The Host Syndicate's operating status in all states as an approved non-admitted surplus lines carrier rather than as a licensed and admitted carrier, however, reduces this risk. Surplus lines carriers are less regulated, specifically in the forms they use and the rates they can charge. Surplus lines carriers, however, cannot write insurance that is typically available in the admitted market and, traditionally, may only write a policy if it has been rejected by three different admitted carriers and provided the agent or broker placing the business with them has a surplus lines license. Surplus lines carriers are not protected by state guarantee funds, although the U.S. trust funds and Lloyd's Central Fund provide a chain of security for policyholders.

Annual Report of the Directors of the Managing Agent (Continued)

31 December 2015

Future Developments and Important Events since the End of the Financial Year

The SPS increased its insurance capacity to write business to £15.0 million ($22.2 million) for the 2016 underwriting year.

Effective 1 January 2016, Lloyd's is subject to the Solvency II capital regime and Solvency I figures are no longer applicable from that date. Although the capital regime changed, it has not impacted the Solvency Capital requirement of the SPS, since the SPS calculated its requirement based on Solvency II principles.

Payments to Members

The directors do not propose any payments to the members of the SPS.

Directors

The people below were directors of the Managing Agent of the SPS from 1 January 2015 to the date of this report.

T A Riddell, Chairman and Non-Executive Director
Y A Bouman (Resigned 12 February 2016)
G M J Erulin, Non-Executive Director
L Harfitt
A J Hubbard, Non-Executive Director
D J G Hunt
D F C Murphy, Non-Executive Director
S P A Norton
J W Ramage, Non-Executive Director
J M Tighe

The directors of Asta did not participate on the SPS and did not have an interest in any of its contracts.

Disclosure of Information to Auditors

Each of the directors who held office at the approval date of this report confirms to the best of their knowledge, that there is no relevant audit information of which the SPS's auditors are unaware, and each Director took all action necessary as a Director to become aware of any relevant audit information and to establish that the SPS's auditors are aware of that information.

Auditors

Pursuant to Section 14(2) of Schedule 1 of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

On behalf of the Board

Charmaine Chow
Company Secretary
15 March 2016

Statement of Managing Agent's Responsibilities

31 December 2015

The Managing Agent must prepare the directors' annual report and financial statements for Special Purpose Syndicate 6123 (the SPS) in accordance with applicable law and regulations.

The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require the Managing Agent to prepare financial statements for the SPS at 31 December each year in accordance with applicable law and United Kingdom (U.K.) accounting standards (U.K. Generally Accepted Accounting Practice). Law requires that the financial statements give a true and fair view of the state of affairs of the SPS at that date and its profit or loss for the year.

In preparing the SPS's financial statements, the Managing Agent must:

i. select suitable accounting policies and apply them consistently, subject to changes from new accounting standards adopted during the year;

ii. make reasonable and prudent judgments and accounting estimates;

iii. state whether they followed applicable accounting standards, subject to any material departures disclosed and explained in the notes to the financial statements; and

iv. prepare the financial statements on the basis that the SPS will continue to write business for the foreseeable future unless it is inappropriate to presume so.

The Managing Agent must keep adequate accounting records that disclose with reasonable accuracy at any time the financial condition of the SPS and enable the Managing Agent to ensure that the SPS's financial statements comply with the 2008 regulations. The Managing Agent must also safeguard the assets of the SPS by taking reasonable steps to prevent and detect fraud and other irregularities.

The Managing Agent is responsible for the maintenance and integrity of the corporate and financial information included on its website. Legislation in the U.K. governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report to the Members of Special Purpose Syndicate 6123

We have audited the financial statements of Special Purpose Syndicate 6123 for the year ended 31 December 2015, as set out on pages 16 to 39. The financial reporting framework that has been applied in their preparation is applicable law and UK accounting standards (UK Generally Accepted Accounting Practice).

This report is made solely to the members of the syndicate, 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 managing agent and auditors

As explained more fully in the statement of managing agent's responsibilities set out on page 13, the Managing Agent is responsible for the preparation of the syndicate's 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 syndicate's financial statements in accordance with 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 financial statements

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

Opinion on the syndicate's financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the syndicate's affairs at 31 December 2015 and its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008.

Opinion on other matters prescribed by the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008

In our opinion the information given in the Report of the Directors of the Managing Agent for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Special Purpose Syndicate 6123 (Continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 require us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

Salim Tharani (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London, E14 5GL

15 March 2016

Statement of Profit and Loss - Technical Account
Year Ended 31 December 2015

	Note	2015 $000
Technical account - General business:		
Earned premiums, net of reinsurance:		
Gross premiums written	3	6,613
Outward reinsurance premiums		(3,192)
Net premiums written		3,421
Change in the gross provision for unearned premiums	7	(4,756)
Change in the provision for unearned premiums, reinsurers' share	7	958
Net change in provision for unearned premiums		(3,798)
Earned premiums, net of reinsurance		(377)
Claims incurred, net of reinsurance:		
Claims paid:		
Gross amount		(26)
Reinsurers' share		—
Claims paid		(26)
Change in the provision for claims:	7	
Gross amount		(98)
Reinsurers' share		—
Change in provision for claims		(98)
Claims incurred, net of reinsurance		(124)
Net operating expenses	4, 5	(1,323)
Balance on techincal account - general business		(1,824)

All operations relate to continuing activities.

The notes on pages 21 to 39 form part of these financial statements.

Statement of Profit and Loss - Non-technical Account
Year Ended 31 December 2015

	Note	2015 $000
Balance on the technical account - general business		(1,824)
Other income (profit from foreign exchange)		18
Loss for the financial year		(1,806)

All operations relate to continuing activities.

Special Purpose Syndicate 6123 had no recognised gains and losses this year other than those included in the Profit and Loss Account. Therefore, the directors of the Managing Agent have not presented a Statement of Comprehensive Income.

The notes on pages 21 to 39 form part of these financial statements.

Balance Sheet
At 31 December 2015

	Note	2015 $000
Assets:		
Reinsurers' share of technical provisions:	7	
Provision for unearned premiums		958
Claims outstanding		–
		958
Debtors:		
Debtors arising out of reinsurance operations		4,359
Other debtors		106
		4,465
Prepayments and accrued income:		
Deferred acquisition costs	6	1,323
Other prepayments and accrued income		51
		1,374
Total assets		6,797

The notes on pages 21 to 39 form part of these financial statements.

Balance Sheet
At 31 December 2015

	Note	2015 $000
Liabilities:		
Capital and reserves:		
Members' balances		(1,806)
Technical provisions:	7	
Provision for unearned premiums:		
Gross amount		4,756
Claims outstanding:		
Gross amount		98
		4,854
Creditors:		
Creditors arising out of reinsurance operations		164
Inter-syndicate loan	9	3,320
Other creditors	8	102
		3,586
Accruals and deferred income		163
Total liabilities		6,797

The board of Asta Managing Agency Ltd approved Special Purpose Syndicate 6123's financial statements on pages 21 to 39 on 15 March 2016, which the Director below signed on the board's behalf.

David J G Hunt
Director
15 March 2016

The notes on pages 21 to 39 form part of these financial statements.

Statement of Changes in Members' Balances
Year Ended 31 December 2015

	Note	2015 $000
Members' balances at beginning of year		—
Loss for the financial year		(1,806)
Members' balances at end of year		(1,806)

Members participate in Special Purpose Syndicate 6123 on an underwriting year basis. Special Purpose Syndicate 6123 assesses its results and net assets for each underwriting year based on the policies incepting in that year for the membership of that year.

The notes on pages 21 to 39 form part of these financial statements.

Notes to the Financial Statements

31 December 2015

(1) Basis of Preparation

The directors of the Managing Agent (the directors) prepared these financial statements for Special Purpose Syndicate 6123 (the SPS) in compliance with The Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008 and Financial Reporting Standard 102, *The Financial Reporting Standard* (FRS 102) and Financial Reporting Standard 103, *Insurance Contracts* (FRS 103), being applicable United Kingdom (U.K.) Generally Accepted Accounting Practice (GAAP), and in accordance with the provisions of Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations relating to insurance companies.

The directors prepared these financial statements on the historical cost basis, except for certain financial instruments measured at fair value through profit or loss, and presented them in U.S. Dollars, which is the functional and presentational currency of the SPS. The SPS has no cash and cash equivalents and accordingly, the directors did not present a Statement of Cash Flows in these financial statements.

(2) Accounting Policies

The directors consistently applied the material accounting policies in items (b) through (m) below to prepare these financial statements.

(a) Use of Estimates

The preparation of financial statements in conformity with U.K. GAAP requires that the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include:

(i) Provision for claims outstanding,

(ii) expected policy cancellations, and

(iii) accruals for contingent commissions under reinsurance contracts.

(b) Insurance Contracts

Insurance contracts are contracts where the SPS (as a reinsurer) accepts significant insurance risk (risk arising from both underwriting risk and timing risk), from a reinsured by agreeing to compensate them if a specified uncertain future event (the reinsured event) adversely affects them. The SPS determines whether it has significant insurance risk by comparing the amount and timing of premiums, commissions, and claim settlement expenses paid with the amount and timing of such cash flows if the reinsured event did not occur. Insurance contracts can also transfer financial risk.

Once the SPS classifies a contract as an insurance contract, it remains an insurance contract for the remainder of its term, even if the insurance risk decreases significantly during this period, unless all rights and obligations extinguish or expire.

Notes to the Financial Statements (Continued)

31 December 2015

(2) Accounting Policies (Continued)

(c) Gross Premiums Written

Gross premiums written consist of premiums from inward reinsurance acceptances during the year. Gross premiums written also include premiums on reported but unprocessed reinsurance acceptances at the balance sheet date and a deduction for expected reinsurance acceptance cancellations based on the reinsured's historical cancellation activity over the past two years. The SPS shows premiums gross of ceding commissions on inward reinsurance acceptances and excludes taxes and fees levied on them.

(d) Outward Reinsurance Premiums

Outward reinsurance premiums consist of premiums on outward reinsurance contracts with other insurers and reinsurers bound during the year to reduce the SPS's exposure to losses from catastrophes and all other property perils. The SPS's catastrophe reinsurers also charge reinstatement premiums to restore reinsurance contracts to their full limits when large catastrophes occur that exhaust all or a portion of these limits. Reinsurance transactions do not relieve the SPS of its primary obligations to its policyholders.

(e) Provision for Unearned Premiums

The provision for unearned premiums is the portion of gross premiums written that the SPS will earn in the future and the corresponding amount of reinsurance premiums that it will expense. The SPS earns hurricane premiums, inclusive of attritional catastrophe coverage covering tornados, hail, and other windstorm risks, evenly over the Atlantic Hurricane Season(s) (the incidence of risk) that occur during the policy term. The Atlantic Hurricane Season runs from June 15th to November 15th of each year. The SPS earns earthquake and all other property peril premiums evenly over the policy term. The SPS expenses related reinsurance premiums evenly over the contract term (remaining contract term for reinstatement premiums), or incidence of risk, if significantly different. The SPS also expenses the deferred premium balance on exhausted coverage when large catastrophes occur.

(f) Provision for Unexpired Risks

At the balance sheet date, the SPS performs a liability adequacy test on it insurance liabilities less related deferred acquisition costs to ensure that the carrying value is adequate, using current estimates of future cash flows. If this test shows that the liabilities is inadequate, any deficiency is recognised as an expense to the profit or loss account initially by recognising an additional liability for claims provisions or recognising a provision for unexpired risks.

The directors assess the provision for unexpired risks by class of business. No provision for unexpired risks was recorded in 2015.

Notes to the Financial Statements (Continued)

31 December 2015

(2) Accounting Policies (Continued)

(g) *Claims Incurred, Net of Reinsurance*

Gross claims incurred consist of the estimated cost of settling all claims occurring before the balance sheet date, whether reported or not, including related claims handling expenses. The SPS does not discount claims outstanding. The SPS anticipates subrogation recoveries when it sets provisions for reported claims. The SPS accounts for reinsurance recoveries when it incurs the related losses. The directors assess the provision for claims outstanding on a case basis based on the estimated cost of all claims notified but not settled at the balance sheet date.

The provision also includes the estimated cost of claims incurred but not reported (IBNR) at the balance sheet date based on statistical methods and includes adjustments for catastrophes and other significant events, changes in historical trends, economic and social conditions, judicial decisions, and legislation, as necessary.

In evaluating the provision, the directors use the findings of the SPS's actuaries, which include an associated third party claims administrator's loss estimates for large catastrophes. The claims administrator, together with loss modelling staff, base the selected estimate of losses for each large catastrophe after considering the range of ultimate loss estimates using various methods. Such methods include expected claim count and average cost per claim, incurred loss development, stochastic event scenario modelling from different software vendors, market share analysis, and other information, including independent third party evaluations. For smaller catastrophes and all other property perils, the SPS's actuaries apply Initial Expected Loss Ratios (IELRs) for each class of business, which is segmented by homogeneous regions and policy types. The SPS's actuaries develop these IELRs against catastrophe models, market data, and past claims on similar classes of business.

The provision for claims outstanding is subject to significant variability. While the directors believe that the recorded provision for gross claims and reinsurance recoveries is adequate, establishing this liability is a judgmental and inherently uncertain process. Therefore, it is possible that actual losses may not conform to the assumptions that the directors used in determining the amount of this provision. Accordingly, the ultimate provision may be significantly greater or less than the outstanding amount held at the balance sheet date. The SPS recognises adjustments to the provision for claims outstanding in the profit and loss account when known. The nature of short tail claims, such as the property insurance that the reinsured syndicate provides, where policyholders typically notify the reinsured syndicate of their claims within an average of 28 days and the reinsured syndicate typically settles these claims within a short time period which is normally less uncertain after a few years than long tail risks, such as some liability lines of business, where it may be several years before policyholders advise their insurance carriers of their claims and the carriers settle them.

The directors base the reinsurers' share of the provision for claims outstanding on the provisions for reported claims and IBNR, net of estimated irrecoverable amounts from potential reinsurer insolvencies based on the type of balance and security ratings of the involved reinsurers. The directors use statistical methods to help them make these estimates.

Notes to the Financial Statements (Continued)

31 December 2015

(2) Accounting Policies (Continued)

(h) Claims Handling Expenses

Claims handling expenses mostly consist of fees to an associated third party claims administrator for the handling of claims. In exchange for these services, the claims administrator charges a base fee equal to a percentage of gross premiums written. The base fee gives the SPS through the reinsured access to the claims administrator's staff for the administration of claims; it also entitles the SPS to a predetermined number of new claim file allowances. To the extent that actual claim volume exceeds the accumulated claim file allowances under the base fee, the claims administrator charges an additional fee for each additional claim.

This claims administration arrangement contains multiple deliverables, each representing a separate unit of accounting. As such, the SPS defers the portion of fees attributable to new claim file allowances based on their selling prices (contract rates) until actual claims are reported against them, or the allowances expire, whichever occurs first. If an actual claim is reported against a claim file allowance, the SPS recognises the allowance expense over the period that the claim is administered based on historical settlement patterns. If a claim is not reported against a claim file allowance before the allowance expires, the SPS includes the allowance in the profit and loss account when the allowance expires. The SPS defers the rest of the base fee (for access to staff and infrastructure) and recognises it as expense evenly over the term of services. The SPS includes deferred claims handling expenses in other prepayments and accrued income.

(i) Acquisition Costs, Net of Reinsurance

Acquisition costs consist of ceding commissions on inward reinsurance acceptances. The SPS defers acquisition costs to the extent that they are attributable to unearned premiums at the balance sheet date and expenses them as it earns the underlying insurance contract premiums. The SPS includes acquisition costs in net operating expenses.

(j) Net Operating Expense

The SPS recognises operating expenses when incurred. Operating expenses include acquisition costs and the change in deferred acquisition costs, administrative expenses, and reinsurance commissions and profit participation. Administrative expenses consist of:

(i) operating costs,

(ii) Managing Agent fees,

(iii) Lloyd's membership costs, and

(iv) auditor fees.

Administrative expenses may also include profit commissions charged by the Managing Agent. Profit commissions equal a percentage of each underwriting year's profits subject to a two-calendar-year deficit carry-forward provision. The SPS charges commissions to expense when incurred. The SPS recognises brokerage sharing when brokers place the reinsurance coverage.

Notes to the Financial Statements (Continued)

31 December 2015

(2) Accounting Policies (Continued)

(j) Net Operating Expense

Reinsurance commissions and profit participation consist of contingent profit commissions from reinsurers. The SPS accrues for contingent profit commissions based on the contract formulas. The SPS's contingent profit commission calculations include a provision for IBNR.

(k) Offsetting

The SPS sets off and presents its financial assets and liabilities net where:

(i) each it and another party owes the other determinable amounts,

(ii) it has the right to set off the amount owed with the amount owed by the other party,

(iii) it intends to set off, and

(iv) the right of setoff is enforceable at law.

(l) Foreign Currency Translation

The directors measure foreign currency assets and liabilities at the closing exchange rate in effect at the balance sheet date, while they measure foreign currency revenues and expenses at the historical exchange rates in effect at the time of the related transactions. The directors used an exchange rate of 1.48 to translate Great British Pound balances into U.S. Dollars at 31 December 2015.

(m) Taxation

Schedule 19 of the Finance Act 1993 does not require the Managing Agent to deduct basic rate income tax from the SPS's trading income. Therefore, payments of profits made to members of the SPS or their members' agents are gross of tax. Trading income includes capital appreciation, which is also paid gross of tax. The SPS did not make any provision for U.S. federal income tax payable on its underwriting results. The SPS's members pay these taxes alongside the U.K. income taxes resulting from the SPS's trading income. The SPS includes any tax payments made on account of its members during the year in members' balances.

Notes to the Financial Statements (Continued)

31 December 2015

(3) Segment Reporting

The table below detail the SPS's underwriting results before investment return by class of business.

	2015 $000					
	Gross premiums written	Gross premiums earned	Gross claims incurred	Gross operating expenses	Reinsurance Balance	Total
Reinsurance accepted	6,613	1,857	(124)	(1,335)	(2,222)	(1,824)

Included in the reinsurance balance is reinsurance profit participation of $11,998.

The SPS's reinsurance agreement with the reinsured operates on a funds withheld basis, with the reinsured holding the SPS's funds for each underwriting year in premium trust funds for three years; after which, the reinsured remits these funds to the SPS.

The SPS only reinsures properties in the U.S.

Ceding commissions paid or payable on reinsurance business totalled $1.8 million.

(4) Net Operating Expenses

	2015 $000
Acquisition costs	1,833
Change in deferred acquisition costs	(1,323)
Administrative expenses	825
Reinsurance commissions and profit participations	(12)
Total	1,323

This table details administrative expenses included in net operating expenses.

	2015 $000
Operating costs (includes Managing Agent recharges)	282
Managing Agent fees	500
Lloyd's membership costs	70
Auditor remuneration - audit fees	76
Auditor remuneration - non-audit fees	2
Brokerage sharing	(105)
Total	825

Notes to the Financial Statements (Continued)

31 December 2015

(4) Net Operating Expenses (Continued)

Managing Agent fees consist of service fees paid or payable to the Managing Agent. Auditor fees were primarily for the audit of the SPS's financial statements and the audits of the Lloyd's regulatory returns. Audit fees also include fees for the Syndicate's half year review of $47,386. Non audit fees are for the actuarial review of the SPS's technical provisions and the preparation of the statements of actuarial opinion.

(5) Key Management Personnel Compensation

The directors did not receive any compensation for their services during the year, nor did the directors participate on the SPS or have an interest in any of its contracts.

The Managing Agent employed an average of 10 people that worked for the SPS. The Managing Agent recharged the SPS for the payroll costs of one of these employees. Service fees to the Managing Agent as part of their Managing Agent fees included compensation for the other employees.

International Catastrophe Insurance Managers, LLC (ICAT Managers), a Delaware company, underwrites most of the Syndicate's insurance business. Boulder Claims, LLC (Boulder Claims), also a Delaware company and a wholly owned subsidiary of ICAT Managers (collectively ICAT), provides claims administration services to the SPS. The SPS's staff compensation expense includes reimbursements to ICAT Managers for the recharged portion their underwriting and operations staff's salaries, including the salaries of the Active Underwriter and Syndicate Operations Manager, who work directly for the SPS, but are employees of ICAT Managers.

This table details the payroll recharges, included in administrative expenses under operating costs, to the SPS by category.

	2015 $000
Wages and salaries	17
Social security costs	1
Other pension costs	—
Total	18

Compensation to the Active Underwriter accounted for $13,752 of the total payroll recharges.

(6) Deferred Acquisition Costs

	2015 $000
Balance at 1 January	—
Change in deferred acquisition costs	1,323
Balance at 31 December	1,323

Notes to the Financial Statements (Continued)

31 December 2015

(7) Technical Provisions

The table below details the changes in the SPS's claims outstanding.

	2015 $000 Gross	Reinsurers' share	Net
At 1 January 2015	—	—	—
Claims incurred during current underwriting year	110	—	110
Paid claims during the year	(12)	—	(12)
At 31 December 2015	98	—	98

The table below details the changes in the SPS's provision for unearned premiums.

	2015 $000 Gross	Reinsurers' share	Net
At 1 January 2015	—	—	—
Premiums:			
Written	6,613	(3,192)	3,421
Earned	(1,857)	2,234	377
At 31 December 2015	4,756	(958)	3,798

(8) Other Creditors

	2015 $000
U.S. federal excise taxes payable	25
Amounts due to others	77
Total	102

Notes to the Financial Statements (Continued)

31 December 2015

(9) Related Parties

Asta Managing Agency Ltd (Asta) is the SPS's Managing Agent.

This table details amounts expensed or payable to the Asta.

	2015 $000
Managing Agent fees on insurance capacity	117
Service fees	383
Recharges (payroll costs and expenses)	—
Profit commissions	—
Total expenses	500
Balance payable (including expenses accrued but not yet due) to the Managing Agent at 31 December	22

Fees to ICAT for claims administration services totalled $62,435. ICAT provides accounting and capital modelling services to the SPS for an annual fee of $100,000 (prorated to $75,000 for 2015).

ICAT is an indirect subsidiary of Paraline Group, Ltd (Paraline Group), a company registered in Bermuda that also provided 10.0% of the SPS's insurance capacity through its indirectly owned ICAT corporate member. An unrelated foreign reinsurer fully supports the ICAT corporate member's participation.

The table below details the percentage of total Syndicate capacity provided by other parties for the 2015 underwriting year.

Hampden Agencies Limited (MAPA 7217)	19.9%
IAT CCM Limited	20.0%
Labuan Re Underwriting Limited	20.0%
Nomina (No. 1253) Limited	0.1%
Securis LCM Limited	15.0%
Taiping Re UK Ltd	15.0%
Total	90.0%

Paraline CCM Limited, an indirectly owned Lloyd's corporate member of Paraline Group, is the beneficiary of a catastrophe reinsurance brokerage sharing agreement with the SPS. The balance payable (including amounts accrued but not yet due) to Paraline CCM Limited was $77,391 at 31 December 2015.

Paraline International, a wholly owned subsidiary of Paraline Group, owns 30.21% of Asta's ultimate parent, Asta Capital Limited, a company incorporated in the U.K. and registered in England and Wales. Asta has an agreement with Paraline International to review and monitor the adherence of ICAT to the SPS's underwriting guidelines. No contingent commissions were paid or payable to Paraline International for this oversight because the SPS generated a loss of the financial year.

Notes to the Financial Statements (Continued)

31 December 2015

(9) Related Parties (Continued)

Pursuant to an inter-syndicate loan deed between the reinsured and the SPS, the reinsured may advance up to $10.0 million to the SPS; such advances accrue interest at an annual rate equal to the greater of:

(a) the Six Month U.S. Treasury Bill rate at the date of the advance, or

(b) the Syndicate's average investment yield earned during the period of the advance.

At 31 December 2015, the SPS had a loan payable balance to reinsured of $3.3 million (including accrued interest of $422), measured at cost. The reinsured also owed the SPS $1.9 million at 31 December 2015.

Asta is the Managing Agent for eight Lloyd's Syndicates and two other Special Purpose Syndicates (SPS). In addition to the Syndicate, Asta manages Syndicates 1686 (AXIS), 1729 (Dale Underwriting Partners), 1897 and SPS 6126 (Skuld), 1910 and SPS 6117 (Ariel), 2357 (Nephila), 2525 (D L Dale & Others), 4242 (ICAT), and 2786 (Everest) on behalf of third party capital providers that with the exception of Everest are independent of the Syndicate's capital providers. Asta also provides administrative services to syndicates and performs a number of other ancillary roles for clients.

The syndicates that Asta manages may enter into reinsurance contracts with the SPS; these transactions are subject to Asta's internal controls, which ensure compliance with the Lloyd's Related Party Byelaw.

(10) Funds at Lloyd's

The Society of Lloyd's (Lloyd's) requires every member of the SPS to hold capital in trust, known as Funds at Lloyd's, to support their supplied insurance capacity. Lloyd's intends for these funds to mainly cover the participating members' underwriting liabilities if the SPS's assets prove to be inadequate. Paraline Group's ICAT corporate member held $18.1 million of such funds in trust at 31 December 2015 for both its participation in the SPS and in Syndicate 4242. Since third parties supplied the rest of the funds, the directors did not disclose these funds in the financial statements since they are not under the control of the Managing Agent or its affiliates; the Managing Agent, however, can make calls on these funds along with the funds provided by Paraline Group's ICAT corporate member to meet liquidity requirements or settle claims.

(11) Contingent Liabilities

The SPS is regularly involved in legal proceedings in the ordinary course of business. The directors believe the outcome of these proceedings will not have a material adverse effect on the SPS's financial condition or future profitability.

Notes to the Financial Statements (Continued)

31 December 2015

(12) Risk Management

(a) Governance Framework

The SPS's risk and financial management framework aims to protect member capital from events that might otherwise prevent the SPS from meeting its policyholder obligations, while maximising the returns to its members. The directors recognise the critical importance of having efficient and effective risk management systems and processes in place.

Asta maintains a risk management function for the SPS with clear terms of reference from the SPS Board (the Board) that it appoints and from the Board's committees and subcommittees; Asta supplements this with a clear organisational structure with documented authorities and responsibilities from the Board to ICAT, who performs a majority of the SPS's activities. Lastly, the SPS policy framework sets its risk management and control and business conduct standards for operations. Asta reviews and monitors each policy to ensure compliance with the policy throughout the SPS and by ICAT.

The Board approves the SPS's risk management policies and meets regularly to approve any commercial, regulatory, or organisational requirements of such policies; these policies define the identification of risk and its interpretation to ensure the appropriate quality and diversification of assets, align the underwriting and reinsurance strategies to the SPS's goals, and specify any reporting requirements. The Board places significant emphasis on the assessment and documentation of risks and controls, including the quantification of the SPS's risk appetite.

(b) Capital Management

(i) Capital Framework at Lloyd's

The Prudential Regulatory Authority (PRA) under the Financial Services and Markets Act 2000, and in accordance with the Solvency II Framework, regulates Lloyd's.

Within this supervisory framework, Lloyd's applies capital requirements at member level and centrally to ensure that overall Lloyd's market complies with the requirements of Solvency II, and beyond that to meet its own financial strength, license, 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, not at the syndicate level, Accordingly, the directors have not disclosed a capital requirement for the SPS in these financial statements.

(ii) Lloyd's Capital Setting Process

In order to meet Lloyd's requirements, each syndicate must 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 the requirements of Solvency II. The Lloyd's Capital and Planning Group reviews and approves the SCRs of each syndicate.

Notes to the Financial Statements (Continued)

31 December 2015

(12) Risk Management (Continued)

(b) Capital Management (Continued)

(ii) Lloyd's Capital Setting Process

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 syndicates on which it is participating, but not other members' shares. Accordingly, the capital requirements that Lloyd's sets for each member operate on a similar basis. Lloyd's determines each member's SCR by the sum of the member's share of the syndicate SCR 'to ultimate'. Where a member participates on more than one syndicate, Lloyd's gives a credit for diversification 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 the member's capital requirement, known as the Economic Capital Assessment (ECA). The purpose of this uplift, which is a requirement of Lloyd's not Solvency II, is to meet Lloyd's financial strength, license, and ratings objectives. The capital uplift applied for 2016 was 35% of the member's SCR 'to ultimate'.

(iii) 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, the ending members' balances reported in the Statement of Changes in Members' Balances on page 20, represent resources available to meet members' and Lloyd's capital requirements.

(c) Insurance Risk

Insurance risk may either arise from an inaccurate assessment of the risks entailed in writing an insurance policy or from factors wholly out of the SPS's control. As a result, losses paid by the SPS may exceed earned premiums. The SPS tries to reduce insurance risk by basing its risk appetite on its maximum loss tolerance, geographically diversifying its business, and using appropriate underwriting processes, which include inspections of every property, to guide the pricing and acceptance of risks; this helps to ensure that premiums cover the expected levels of loss.

The SPS sets its tolerance for catastrophe losses based on nationwide and regional Exceedance Probabilities (EP) in the U.S., as well as on Realistic Disaster Scenarios (RDS) designed to stress test the SPS for material catastrophe risks at different probability levels by potential loss of capital. The EP is the probability that losses exceed a certain threshold for a catastrophic loss event at a selected probability of occurrence. The SPS generally quantifies its risk appetite at the 99.5% EP level or the 1 in 200 year loss.

Notes to the Financial Statements (Continued)
31 December 2015

(12) Risk Management (Continued)

(c) Insurance Risk (Continued)

ICAT developed the catastrophe model that the SPS uses to set its overall EP loss exposure limits by adjusting a model from a major vendor to better align it to the SPS's assessment of risk. ICAT's model adjustment methodology more precisely estimates building vulnerability, storm surge coverage leakage, losses from inland risks and coastal risks, and landfall frequency and severity than the standard vendor model. The SPS validates the results from ICAT's methodology against alternate models from other major vendors. ICAT uses its model adjustment methodology to model every property in the reinsured's book of business monthly. In managing the SPS's risk appetite, ICAT allocates limits to various geographic zones. The identification and determination of each zone and its area as well as whether to include a particular policy within a zone's limits requires significant judgment. ICAT controls and limits the reinsured's concentration of risk within these zones as well as the risk at the neighbourhood and street level using an accumulation tool.

The SPS monitors EP estimated gross losses and balances the offering of new and renewal accounts between low and high loss-driving areas. The SPS sets its tolerance for All Other Peril (AOP) losses at the building and location level. ICAT also monitors the SPS's loss exposures against its risk appetite using RDS modelling. RDS include the events below.

(i) Windstorm in the Northeastern U.S.

(ii) Windstorm in the Carolinas

(iii) Two separate Florida windstorms (Miami-Dade and Pinellas)

(iv) Windstorm in the U.S. Gulf

(v) Two separate California earthquakes (Los Angeles and San Francisco)

(vi) New Madrid area of the U.S. earthquake

(vii) Two separate Syndicate-specific scenarios (Mississippi windstorm and U.S. Pacific Northwest earthquake)

Notes to the Financial Statements (Continued)

31 December 2015

(12) Risk Management (Continued)

(c) Insurance Risk (Continued)

The table below shows the hypothetical estimated gross losses arising out of the RDS listed above based on the SPS's in-force exposures at 31 December 2015.

	Estimated gross losses $000
Windstorm in the Northeastern U.S.	6,166
Windstorm in the Carolinas	1,886
Florida windstorm (Miami-Dade)	14,905
Florida windstorm (Pinellas)	7,271
Windstorm in the U.S. Gulf	10,373
California earthquake (Los Angeles)	8,830
California earthquake (San Francisco)	13,063
New Madrid area of the U.S. earthquake	2,261
Syndicate-specific scenario (Mississippi windstorm)	5,027
Syndicate-specific scenario (U.S. Pacific Northwest earthquake)	18,804

Also, the SPS periodically evaluates and adjusts its reinsurance protection to manage its overall retention of insurance risk. The SPS has layered catastrophe reinsurance from a diversified group of secure reinsurers among other reinsurance to protect it against an adverse accumulation of the losses from multiple policies as a result of catastrophic events, each with losses of up to $43 million ($68 million in the aggregate). This reinsurance helps to limit the SPS's risk of insolvency from a single large catastrophe or multiple smaller catastrophes.

Under a binding authority agreement with the reinsured, ICAT underwrites most of the reinsured's business. ICAT sets and controls the underwriting authority of each of its underwriters. Underwriters adhere to daily monitored regional blueprints, which identify where the reinsured's insurance capacity should be deployed. These blueprints, with their defined underwriting guidelines alongside modelling and pricing practices, determine the prescribed range of rates at which ICAT may sell the reinsured's insurance capacity. Underwriters must refer underwriting decisions for risks outside of those outlined in the blueprints or in excess of their authority limit to higher levels of authority. ICAT audits the individuals who have binding authority on a regular basis to ensure adherence to established underwriting authority limits. ICAT also conducts other underwriting audits on an ad-hoc basis and reviews significant risks written each month. Asta also has its own controls.

Notes to the Financial Statements (Continued)

31 December 2015

(12) Risk Management (Continued)

(c) Insurance Risk (Continued)

Asta has a governance structure in place to monitor the underwriting and loss exposure management controls of ICAT. The Board ensures the appropriate management of the SPS in accordance with the Managing Agent's responsibilities. The Board meets quarterly and has delegated authority to approve underwriting related matters, including:

(i) non-material changes to the business plan,

(ii) underwriting authority levels and guidelines,

(iii) operational and ICAT procedures,

(iv) risk policies, the risk register, and all other risk management matters, and

(v) the SPS's compliance plan.

Asta also monitors the SPS's performance against its underwriting risk appetite in several ways, including regular meetings with the Active Underwriter and participation in the monthly meetings of the Production Risk Management Committee (the Committee), which is a subcommittee of the Board, that considers reports from the Active Underwriter and other areas of the business. The Committee also reviews underwriting related matters, including:

(i) progress against the business plan or forecast,

(ii) premium rates and volumes,

(iii) overall loss exposures,

(iv) significant product and premium rate changes;

(v) market conditions, and

(vi) the outcome of underwriting audits covering the operations of ICAT.

Furthermore, Paraline International provides oversight of the underwriting policies adopted by the Active Underwriter. Paraline International identifies key underwriting guidelines and limitations in the binding authority agreement between ICAT and the reinsured and monitors ICAT adherence to these underwriting guidelines including consideration of material changes in underwriting authority, risk profile, reinsurance, and any breaches of the ICAT binding authority agreement.

The SPS's annual business planning process sets the targets for written premiums and overall profitability for the coming year. Factors taken into account in determining these targets include the risk appetite of the SPS's capital providers, anticipated pricing, insurance policy terms and conditions, and other risk metrics.

Notes to the Financial Statements (Continued)

31 December 2015

(12) Risk Management (Continued)

(c) Insurance Risk (Continued)

The SPS hires qualified third party claims administrators that have specialised adjusters and forensic engineers to set reserves on notified damaged properties and incidental liability claims. Both ICAT and Asta review these reported claims monthly. The SPS also employs standard actuarial methods to assess its overall best estimate of reserves for each underwriting account quarterly using historical losses loaded for future uncertainty in areas where reserves may prove to be materially inadequate; this assessment process requires ongoing discussions between the SPS's actuaries and the underwriters and claims adjusters of ICAT, and includes various levels of approval supplemented by external actuarial validation. The SPS's actuaries track projected loss ratios quarterly and may reassess their reserving methods if necessary. The Board approves the reserves of the SPS quarterly, after considering the recommendation of the Reserve Committee (a subcommittee of the Board).

The table below details the SPS's liabilities for claims outstanding by class of business.

	2015		
	Gross $000	Reinsurance $000	Net $000
Reinsurance accepted	98	—	98

The liabilities in the table above may be significantly greater or less than the ultimate cost of settling the associated claims; this level of uncertainty varies by class of business. The Syndicate considers a five percent increase or decrease in the ultimate cost of settling its outstanding claim liabilities reasonably possible at the balance sheet date.

The table below show how a five percent increase or decrease in net claim liabilities would affect the SPS's profit for the financial year and its members' balances.

	2015	
	Five percent increase $000	Five percent decrease $000
Reinsurance accepted	(5)	5

The table below shows the SPS's cumulative incurred claims development, including both claims notified and IBNR for each underwriting year, together with the cumulative payments to date on a gross and net of reinsurance basis at the balance sheet date.

Underwriting year	2015 $000
Estimate of cumulative claims incurred:	
At end of underwriting year	110
Less cumulative paid	(12)
Liability for gross outstanding	98

Notes to the Financial Statements (Continued)
31 December 2015

(12) Risk Management (Continued)

(c) Insurance Risk (Continued)

The uncertainty associated with the ultimate claims experience of an underwriting year is greatest when the underwriting year is at an early stage of development and the margin for future experience potentially being more adverse than assumed is at its highest. As claims develop, and the ultimate cost of the claims becomes more certain, the relative level of margin should decrease. Due, however, to the uncertainty inherent in the claims estimation process, initial reserves may not always be in a surplus.

(d) Financial Risk

(i) Market Risk

Market risk is the risk that the fair value or future cash flows of the SPS's financial assets will fluctuate because of changes in the market. Market risk consists of the three risks below.

1. *Interest Rate Risk*

   The SPS has no investments, and therefore has no exposure to interest rate risk.

2. *Currency Risk*

   The SPS writes all its business in U.S. Dollars, which is its functional currency. The SPS also keeps all of its reinsurance balances in U.S. Dollars. The SPS has Great British Pound expenses; these expenses, however, do not create material currency risk for the SPS. The SPS has no exposure to other currencies.

3. *Investment Price Risk*

   The SPS has no investments, and therefore has no exposure to investment price risk.

(ii) Credit Risk

Credit risk is the risk that other parties fail to honor their obligations to the reinsured and the reinsured in turn fails to honor its obligations to the SPS.

Bankruptcy, liquidity problems, distressed financial condition, or the general effects of today's economic environment may increase the risk that policyholders or intermediaries, such as insurance agents and brokers, may not pay a part of or the full amount of premiums owed to ICAT, despite an obligation to do so. If non-payment becomes widespread, whether as a result of bankruptcy, lack of liquidity, adverse economic conditions, operational failure, or otherwise, it could have a material adverse impact on the financial condition of ICAT and its ability to pay the premiums it in turn owes to the reinsured and the reinsured in turn owes the SPS. No single agent, broker, or policyholder accounted for more than 13.2% of the premiums that ICAT wrote for the reinsured and 13.4% of the reinsured's premium balances due at 31 December 2015. Further, the insurance policies that the SPS reinsures may be cancelled for non-payment from policyholders.

Notes to the Financial Statements (Continued)
31 December 2015

(12) Risk Management (Continued)

(d) Financial Risk (Continued)

(ii) Credit Risk (Continued)

The SPS transfers significant amounts of insurance risk to reinsurers. If these reinsurers fail to honor their obligations, the SPS's financial condition, profitability, and cash flows could be adversely affected. The SPS tries to reduce this risk by setting maximum exposure and credit limits for each of its reinsurers based on their industry credit rating and net asset balance. The SPS regularly evaluates the financial condition and payment performance of its reinsurers with the help of outside brokers; evaluations include reviewing credit ratings and monitoring concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics to minimise the SPS's exposure to significant losses from reinsurer insolvencies. The SPS mostly purchases reinsurance from reinsurers with an A.M. Best or Standard & Poor's rating of A or better. If a reinsurer does not have an A or better rating, the Syndicate may obtain collateral from the reinsurer to secure their reinsurance obligations. The SPS had no collateral from its reinsurers at 31 December 2015 to secure their obligations. There were no catastrophe or AOP reinsurance recoveries outstanding at 31 December 2015.

The table below shows the maximum exposure that the SPS's assets have to credit risk.

	2015 $000			
	Neither past due nor impaired	Past due	Impaired	Total
Debtors arising out of reinsurance operations	4,359	—	—	4,359
Other debtors	106	—	—	106
Total	4,465	—	—	4,465

The table below classifies the exposure that the SPS's assets have to credit risk by the Standard & Poor's credit ratings of the investments and parties involved.

	2015 $000				
	AAA	AA	A	Not Rated	Total
Debtors arising out of reinsurance operations	—	—	4,359	—	4,359
Other debtors	—	—		106	106
Total	—	—	4,359	106	4,465

Notes to the Financial Statements (Continued)
31 December 2015

(12) Risk Management (Continued)

(d) Financial Risk (Continued)

(iii) Liquidity Risk

The reinsured pays insurance claims and other liabilities on the SPS's behalf in accordance with the funds withheld and inter-syndicate loan arrangements that SPS has with the reinsured. The SPS's operations, however, could be adversely affected if the reinsured did not have enough cash to pay the SPS's obligations. The reinsured tries to reduce this risk by reviewing its expected cash obligations on a quarterly basis and keeping adequate cash on deposit to meet those obligations. The reinsured settles the SPS's payment obligations in accordance with the vendor terms of each transaction. At 31 December 2015 billings were 22 days outstanding. The reinsured holds any excess funds in cash or invests them in money funds readily convertible to cash without excessive cost to the business. The reinsured also has a $35.0 million letter of credit facility from Barclays Bank PLC.

The table below summarises the SPS's future expected cash obligations on its undiscounted liabilities, including payments of its outstanding claim liabilities based on historical settlement patterns.

	2015 $000				
	Up to a year	1-3 years	3-5 years	More than 5 years	Total
Claims outstanding	88	9	1	—	98
Creditors arising out of reinsurance operations	164	—	—	—	164
Inter-syndicate loan	—	3,320	—	—	3,320
Other creditors	102	—	—	—	102
Total	354	3,329	1	—	3,684

(13) Subsequent Event

The directors evaluated other events subsequent to the balance sheet date through 15 March 2016, the date the SPS issued these financial statements, and determined that no other items require disclosure.